Unrelated Business Income Tax Returns, 2002: Financial Highlights and Special Analyses of Exempt-Organization Reporting Quality

by Margaret Riley

The number of tax-exempt organizations filing Forms 990-T, *Exempt Organization Business Income Tax Returns,* decreased only slightly between Tax Years 2001 and 2002, from 35,540 to 35,103. However, 2002 marked the fourth consecutive year of declining filings of Forms 990-T to report "unrelated business income" (UBI) and taxes. From Tax Year 1998 to Tax Year 2002, the number of organizations filing Forms 990-T dropped nearly 25 percent. The 13,395 returns filed with gross UBI of $10,000 or less represented a 6 percent increase over 2001, but a 40 percent decrease since 1998. The number of returns with gross UBI over $10,000 fell by 10 percent over the 4-year period. Figure A contains these and other statistics for selected major financial data items reported on Forms 990-T for Tax Years 1998, 2001, and 2002.

Gross UBI reported on Forms 990-T, which was an aggregate $7.8 billion for 2002, grew by 11 percent between 1998 and 2000, but then declined by 8 percent from 2000 to 2002, resulting in an overall 2.5 percent growth from 1998 to 2002. After offsetting total gross UBI with $7.9 billion of total deductions, the resulting unrelated business taxable income (less deficit) was -$0.1 billion for 2002. Unrelated business (positive) taxable income (UBTI) of $647.2 million and the associated unrelated business income tax (UBIT) of $194.1 million reported on Tax Year 2002 Forms 990-T were a respective 18 percent and 1 percent less than that reported for 2001 [1]. From 1998 to 2002, taxable income and the associated UBIT liability declined sharply, by 61 percent and 62 percent, respectively.

Figure B shows the computation of total tax liability for Tax Year 2002. After adjusting UBIT with certain credits and other taxes, the resulting total tax reported on Form 990-T for 2002 was $192.7 million, a 13 percent decrease from 2001. Total tax for 2002 takes into account $194.1 million of UBIT, plus $1.1 million of alternative minimum tax, $1.1 million of "proxy tax" on certain nondeductible lobbying and political expenditures, and $0.07 million of "other" taxes, minus $3.6 million of tax credits [2, 3].

Margaret Riley is a statistician with the Special Studies Special Projects Section. This article was prepared under the direction of Barry W. Johnson, Chief.

Tax credits included the foreign tax credit ($1.6 million), general business credit ($1.4 million), credit for prior-year minimum tax ($0.3 million), and "other" credits ($0.2 million). (Detail does not equal totals because of rounding.)

Declines in Unrelated Business Taxable Income and Tax

The decline between 1998 and 2002 in the UBTI of tax-exempt trusts was much greater than the decline in the UBTI of tax-exempt corporations [4]. As a result of the more rapid decline in the UBTI reported by tax-exempt trusts, the share of UBTI reported by tax-exempt corporations increased from 51 percent to 70 percent, respectively, of the total amount of UBTI reported for 1998 and 2002 [5]. The $192.6 million of UBTI reported by tax-exempt trusts for 2002 reflected a 76 percent drop from the $811.1 million reported for 1998, while the UBTI reported by tax-exempt corporations declined by 47 percent, from $858.7 million to $454.6 million between 1998 and 2002. The UBIT liability of trusts decreased by 72 percent during this 4-year period, while that of tax-exempt corporations declined by 52 percent.

In large part, the decline in the amount of UBTI reported by trusts filing Forms 990-T can be attributed to IRC section 501(c)(9) voluntary employees' beneficiary associations (VEBAs) and section 401(a) pension, profit-sharing, and stock bonus plans [6]. (The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described, by Code section, in the Appendix to this article.) These organizations together accounted for a respective 92 percent and 78 percent of the UBTI of trusts for 1998 and 2002. The UBIT of VEBAs fell by 83 percent between the 4 years, and that of section 401(a) trusts fell by 68 percent.

Among the many factors that can influence the amount of an organization's unrelated business taxable income and tax, the types of unrelated business activities in which they engage, and which generate their various types of unrelated business income, are key. Volatility of financial markets during the 1999 to 2002 period appears to be responsible for some of the annual decreases in unrelated business taxable income and tax reported, especially by tax-exempt trusts. Since these types of entities' main source of income is investments, the annual amounts of total

Figure A

Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 1998, 2001, and 2002

[Money amounts are in thousands of dollars]

Item	1998	2001	2002	Percentage change 2001 to 2002	Percentage change 1998 to 2002
	(1)	(2)	(3)	(4)	(5)
Number of returns, total	**46,208**	**35,540**	**35,103**	**-1.2**	**-24.0**
With gross unrelated business income of $10,000 or less[1]	22,124	12,653	13,395	5.9	-39.5
With gross unrelated business income over $10,000[1]	24,084	22,888	21,708	-5.2	-9.9
With unrelated business taxable income	24,332	15,277	14,495	-5.1	-40.4
Without unrelated business taxable income[2]	21,876	20,264	20,608	1.7	-5.8
Gross unrelated business income	**7,584,915**	**7,900,464**	**7,776,017**	**-1.6**	**2.5**
Total deductions[3]	**6,484,443**	**7,882,907**	**7,922,208**	**0.5**	**22.2**
Unrelated business taxable income (less deficit)	**1,100,470**	**17,557**	**-146,191**	**-932.7**	**-113.3**
Unrelated business taxable income	1,669,753	791,963	647,246	-18.3	-61.2
Deficit	569,283	774,406	793,438	2.5	39.4
Unrelated business income tax	**505,896**	**226,032**	**194,074**	**-14.1**	**-61.6**
Total tax	**464,288**	**221,532**	**192,747**	**-13.0**	**-58.5**

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

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

[3] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was $2.1 billion for 1998, $2.3 billion for 2001, and $2.4 billion for 2002.

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

UBI that they report are linked more closely to financial market fluctuations than UBI amounts reported by other types of organizations.

The two main sources of UBI for section 501(c)(9) VEBAs consistently have been investment income (less loss) and capital gain net income. For the section 401(a) trusts, combined partnership and S corporation income and capital gain net income are the two main UBI producers. For tax-exempt corporations, the two largest sources of unrelated business income traditionally have been gross profit (less loss) from sales and services, and advertising income. Generally, investment income of section 501(c) corporations, except for those exempt under sections 501(c)(7), (9), and (17), is not taxed as unrelated business income. (See the definition of Investment Income (Less Loss) in the Explanation of Terms section of this article.)

Between 1998 and 2002, investment income (less loss) and capital gain net income reported by section 501(c)(9) VEBA trusts with taxable income were 77 percent and 93 percent less than respective amounts reported for 1998. These two income items accounted for 95 percent of taxable VEBA trusts' gross UBI for 2002. Capital gain net income and combined partnership and S corporation income of section 401(a) trusts fell by a respective 74 percent and 64 percent between the 2 years, and 88 percent of gross UBI was attributable to these items for 2002. Incorporated organizations with taxable unrelated business income reported a 9 percent increase in gross profit (less loss) from sales and services and a 16 percent increase in advertising income between 1998 and 2002. Together, these income sources accounted for 67 percent of their 2002 gross UBI.

The number of trusts with positive UBTI decreased by 71 percent from 1998 to 2002, from 11,044 to 3,156, compared to a decline of 15 percent for corporations, from 13,395 to 11,339. Most of the decline in the number of trusts was accounted for by the 77 percent decline in the number of IRC section 408(e) traditional IRA trusts reporting UBTI, from 9,741 to 2,253. However, these organizations accounted for only 4 percent to 5 percent of all trusts' UBTI for each of the 2 years. A substantial portion of the gross UBI of smaller traditional IRA trusts

Figure B

Computation of Total Tax Reported on Exempt Organization Business Income Tax Returns, Tax Year 2002

[Money amounts are in thousands of dollars]

Item	Amount
Total unrelated business income tax (UBIT)	**194,074**
Corporate UBIT	126,652
Trust UBIT	67,422
PLUS:	
Total additional taxes	**2,234**
Alternative minimum tax	1,061
Proxy tax[1]	1,104
Other taxes	69
MINUS:	
Total tax credits	**3,562**
Foreign tax credit	1,617
General business credit	1,434
Credit for prior-year minimum tax	262
Other credits	248
EQUALS:	
Total tax	**192,747**

[1]Represents the tax for only those organizations that reported gross UBI above the $1,000 filing threshold. According to IRS Business Returns Transaction File records, the total proxy tax reported on all Forms 990-T was $12.1 million. Some organizations filed Form 990-T only to report the proxy tax and had no unrelated business income.

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

(those with gross income of $10,000 or less) consists of combined partnership and S corporation income. Changes in the gains or losses from partnerships and S corporations can affect whether small IRA trusts' total gross UBI is above or below the $1,000 threshold for filing Form 990-T. For example, the number of returns filed by traditional IRA trusts fell by 32 percent between 1998 and 1999, and the amount of net partnership and S corporation income decreased by 52 percent.

Background

Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed, within certain limits, to generate income from unrelated business activities; however, the income from these activities is subject to taxation.

Unrelated business income is produced from an activity that is both conducted on a regular basis and not directly related to an organization's tax-exempt mission. The fact that the income may be used for furthering an organization's exempt purposes does not alter the definition [7]. Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates [8]. There are certain exclusions to this income taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code (IRC).

Form 990-T Filing Requirements

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

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than $100,000 and total end-of-year assets of less than $250,000). IRC section 501(c)(3) private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation* [9]. The Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific taxpayer information reported on an exempt organization's Form 990/990-EZ "information return" can be disclosed to the public, specific taxpayer information reported on its Form 990-T "tax return" cannot. Under disclosure rules governing the release of taxpayer information, only aggregate totals from Form 990-T can be presented in this article.

Unrelated Business Income Tax Returns, 2002: Financial Highlights and Special Analyses of Exempt-Organization Reporting Quality

To report unrelated business income of $1,000 (the filing threshold) or more for Tax Year 2002, IRC section 220(e), 401(a), 408(e), 408A, and 530(a) trusts' required reporting period was Calendar Year 2002, and the Form 990-T filing date was April 15, 2003. For all other organizations, the required reporting period was any accounting period beginning in Calendar Year 2002 (and, therefore, ending between December 2002 and November 2003, for full-year return filers). The associated required due dates for filing their Tax Year 2002 Forms 990-T generally spanned May 2003 to April 2004, but extensions of time to file beyond this period were routinely granted to many organizations. Corresponding to the required filing dates, the Tax Year 2002 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2003 and 2004. (See the "Data Sources and Limitations" section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a 2002 return, the financial activities covered in this article span the period January 2002 through November 2003, although 54 percent of Form 990-T filers had Calendar Year 2002 accounting periods.

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

Statistical Tables

At the end of this article, Tax Year 2002 statistics covering selected financial data (including gross UBI, total deductions, unrelated business taxable income (UBTI), and total income tax) are shown in Tables 1-5. Tables 6 and 7 provide data on detailed sources of UBI and deductions, respectively. Statistics shown in Table 1 are distributed by type of organization based on Internal Revenue Code sections. Tables 2, 4, 6, and 7 are distributed by size of gross UBI; Table 4 is also distributed by type of entity. Table 3 is distributed by size of UBTI, while Table 5 is distributed by unrelated business activity or industrial grouping.

Special Analyses of Exempt Organization Reporting Quality

Reporting Quality

With the advent of electronic filing and imaging of IRS exempt-organization information returns and their widespread availability to the public, the quantity of data available for regulation and research has increased dramatically. Technological improvements that make more data more accessible are certainly desirable, but ensuring that preparers fill out the forms completely and accurately is equally important. Is "more" really better without quality reporting of return information? Ensuring reporting quality is a shared responsibility of both IRS and return preparers. IRS information and tax forms must require information that is essential for effective regulation, oversight, and public transparency; and the form instructions must be complete, explicit, and clear enough for preparers to follow. Preparers need to be diligent in providing complete responses to the requested information on the forms, especially itemized financial components.

Form 990-T Deductions Allocation Study

The deductions allocation study measures the extent to which high-income organizations (those with gross UBI of $500,000 or more) misreported specifically defined, itemized deduction components as "Other deductions" on Tax Year 2002 Forms 990-T. During the data entry process, SOI staff check the required Other deductions statement for inaccurately reported items and move (allocate) amounts, when appropriate, to one or more of the specifically defined deduction components, such as Salaries and wages. The study examined the difference between deduction amounts as initially reported by filers, and as corrected, through allocation, by SOI staff [10].

During normal IRS processing of paper and e-file returns, data are captured as reported by the return filer. Misreported amounts included in the residual "other" categories are not allocated to the proper, specifically defined return line items. Researchers and IRS staff who use Returns Transaction File (RTF) data for examination or administrative purposes may find this study useful for gauging the extent to which deductions data may be understated, and extrapolating its results to draw conclusions about the possible understatement of itemized income, deductions, assets, and liabilities reported on other types of IRS exempt-organization returns.

Of the 2,381 high-income returns filed, 20 percent required at least one allocation from Other deductions during SOI data entry. Paid preparers completed 79 percent of these 485 returns with misreported amounts [11]. After allocation, the increase in the total amount of each specifically defined deduction category reported by high-income filers ranged from 3 percent to 45 percent, as shown in Figure C. Salaries and wages, the largest aggregate itemized deduction reported on Form 990-T, rose by only 3 percent, although it contained the largest aggregate amount allocated from Other deductions. Contributions to deferred compensation plans rose by 14 percent, and Repairs and maintenance rose by 45 percent. Allocations made to other types of itemized deductions resulted in increases ranging from 4 percent to 9 percent. The residual Other deductions category fell by 3.1 percent.

It is worth noting that no allocations were made to Compensation of officers, directors, and trustees, Excess exempt expenses, or Excess readership costs. Form 990-T filers must provide detailed information on related schedules for these items and then enter schedule totals in the itemized deductions statement. The schedule preparation requirement apparently deters preparers from including these items in Other deductions.

Figure C

All High-Income Forms 990-T: Deduction Detail, As Edited by SOI, As Reported by Taxpayer, and Aggregate Amount Allocated, Tax Year 2002

[Money amounts are in thousands of dollars]

Item	Compensation of officers, directors, and trustees	Salaries and wages	Repairs and maintenance	Bad debts	Interest
	(1)	(2)	(3)	(4)	(5)
Number of returns	2,381	1,393	943	287	413
Total, as edited by SOI	16,563	1,059,609	70,135	41,349	39,180
Total, as reported by taxpayer	16,563	1,027,583	48,469	39,741	37,090
Amount allocated from Other deductions	--	32,027	21,667	1,608	2,090
Percentage increase after allocation	--	3.1	44.7	4.0	5.6

Item	Taxes and licenses	Charitable contributions	Depreciation	Depletion	Contributions to deferred compensation plans
	(6)	(7)	(8)	(9)	(10)
Number of returns	1,117	234	1,041	7	175
Total, as edited by SOI	73,644	23,274	140,164	1,790	9,679
Total, as reported by taxpayer	67,727	21,787	135,169	1,790	8,471
Amount allocated from Other deductions	5,917	1,487	4,995	--	1,207
Percentage increase after allocation	8.7	6.8	7.3	--	14.3

Item	Employee benefit programs	Excess exempt expenses	Excess readership costs	Other deductions
	(11)	(12)	(13)	(14)
Number of returns	1,018	40	399	1,751
Total, as edited by SOI	175,184	6,397	217,549	2,465,018
Total, as reported by taxpayer	167,406	6,397	217,549	2,543,794
Amount allocated from Other deductions	7,778	--	--	-78,776
Percentage increase after allocation	4.6	--	--	-3.1

NOTES: "High-income" Forms 990-T are those returns with gross unrelated business income of $500,000 or more. "SOI" is the abbreviation for the Statistics of Income program of the Internal Revenue Service. Other deductions did not include any amounts of Compensation of officers, directors, and trustees, Excess exempt expenses, Excess readership costs, or Depletion. Therefore, no allocations to these categories were necessary. For the first three of these items, Form 990-T filers must provide detailed information on related schedules and then enter schedule totals in the itemized deductions statement. The schedule preparation requirement apparently discourages filers from including these items in Other deductions.

As shown in Figure D, which includes only those returns to which allocations were made, the three deduction items with the largest aggregate dollar amount allocated from Other deductions were Salaries and wages ($32.0 million allocated), Repairs and maintenance ($21.7 million allocated), and Employee benefit programs ($7.8 million allocated). Among returns to which allocations were made, allocated amounts accounted for close to half of the SOI-edited amount of Salaries and wages, and three-quarters or more of the other two cited deduction items. The largest average dollar amounts allocated from Other deductions were made to Salaries and wages ($344,372), Net depreciation ($92,503), Repairs and maintenance ($89,164), and Employee benefit programs ($84,544). The deduction items with the highest frequency of allocation of misreported taxpayer amounts were Repairs and maintenance (243 returns), Taxes and licenses (180 returns), Salaries and wages (93 returns), and Employee benefit programs (92 returns).

Overall, close to 10 percent of Other deductions reported on returns with allocations should have been included in the more specifically defined deduction items. The percentage change in itemized deduction amounts reported on these 485 returns, after SOI allocations were made, ranged from 12.5 (Salaries and wages) to 106.7 (Repairs and maintenance).

Virtually all of the SOI edited amounts shown in Figure D for Bad debts, Interest, Charitable contributions, and Contributions to deferred compensation plans were allocated from Other deductions. Nearly 99 percent of these items' combined SOI edited amounts was allocated from Other deductions, but the combined amounts accounted for less than 1 percent of the $753,388 Other deductions total. For the five deduction items with the largest aggregate allocated amounts shown in column (5) of Figure D,

Figure D

High-Income Forms 990-T with At Least One Allocation Made from Other Deductions: Deductions Detail, Tax Year 2002

[Money amounts are in thousands of dollars]

Deduction item	Number of returns with allocations ¹	Percentage of all returns with allocations ¹	SOI-edited amount	Taxpayer reported amount	Allocated amount	Percentage of SOI-edited amount allocated from Other deductions
	(1)	(2)	(3)	(4)	(5)	(6)
Other deductions	485	100.0	753,388	832,164	-78,776	N/A
Compensation of officers, directors, and trustees	--	--	--	--	--	--
Salaries and wages	93	19.2	68,069	36,043	32,027	47.1
Repairs and maintenance	243	50.1	28,840	7,174	21,667	75.1
Bad debts	32	6.6	1,618	10	1,608	99.4
Interest	39	8.0	2,094	4	2,090	99.8
Taxes and licenses	180	37.1	16,213	10,296	5,917	36.5
Charitable contributions	22	4.5	1,524	37	1,487	97.6
Depreciation	54	11.1	6,004	1,009	4,995	83.2
Depletion	--	--	--	--	--	--
Contributions to deferred compensation plans	26	5.4	1,242	34	1,207	97.2
Employee benefit programs	92	19.0	9,897	2,119	7,778	78.6
Excess exempt expenses	--	--	--	--	--	--
Excess readership costs	--	--	--	--	--	--

¹ Detail does not add to total because some returns had allocations made to more than one deduction item.

N/A--Not applicable. However, on returns with at least one allocation, 9.5 percent of the total amount of aggregate Other deductions was allocated to one or more specifically defined deduction items.

NOTES: "High-income" Forms 990-T are those returns with gross unrelated business income of $500,000 or more. "SOI" is the abbreviation for the Statistics of Income program of the Internal Revenue Service. Other deductions did not include any amounts of Compensation of officers, directors, and trustees, Excess exempt expenses, Excess readership costs, or Depletion. Therefore, no allocations to these categories were necessary. For the first three of these items, Form 990-T filers must provide detailed information on related schedules and then enter schedule totals in the itemized deductions statement. The schedule preparation requirement apparently discourages filers from including these items in Other deductions.

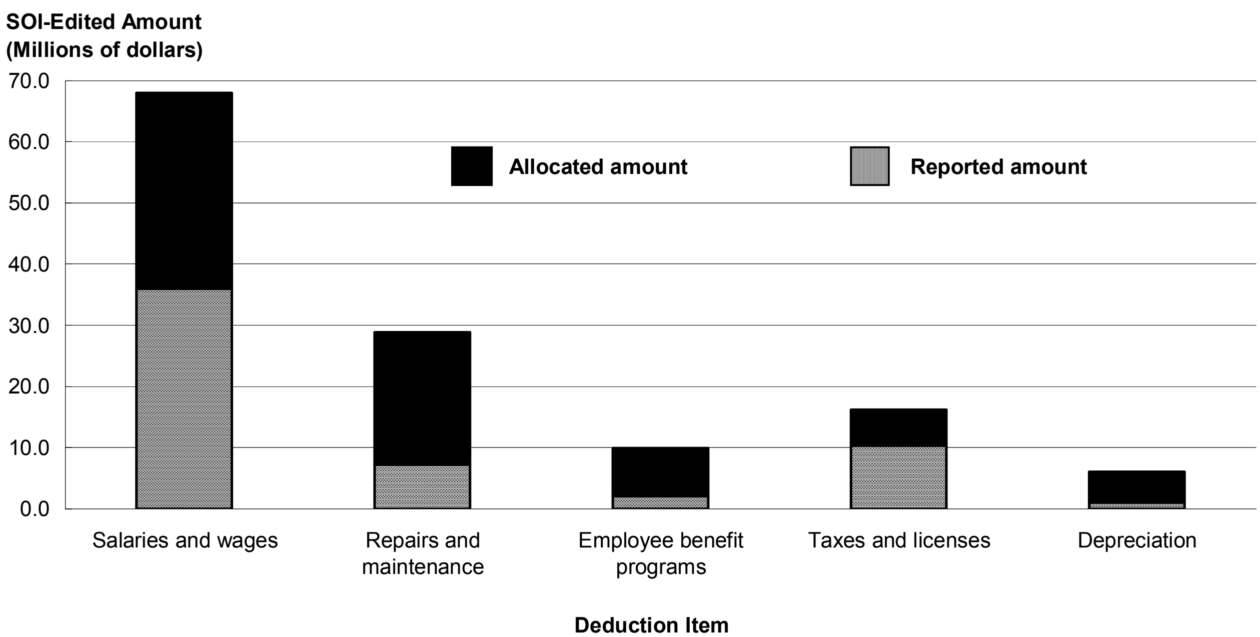
their respective allocated amounts were between 37 percent to 83 percent of their associated SOI-edited amounts. The proportions of the SOI-edited (corrected) amount attributed to taxpayer reporting and SOI allocation for these deduction items are illustrated in Figure E.

Sixty-eight percent of the high-income returns that required SOI allocations of misreported amounts were filed by section 501(c)(3) nonprofit organizations; the remainder were filed by organizations exempt under other sections of the tax code. Section 501(c)(6) business leagues, chambers of commerce, and real estate boards; section 501(c)(7) social and recreational clubs; section 501(c)(4) civic leagues and social welfare organizations; and section 501(c)(5) labor, agricultural, and horticultural organizations accounted for another 30 percent of all high-income returns that required allocations from Other deductions to specifically defined components. Figure F presents selected allocation study data for these organizations. While section 501(c)(3) charities had the highest frequency of returns with allocations, the percentage of their Other deductions allocated to more specifically defined deduction categories was smaller than that for section 501(c)(6), (7), and (5) organizations.

The three primary unrelated business activities reported most often by organizations with allocations from Other deductions, based on self-reported North American Industry Classification System (NAICS) codes and percentage of returns with allocations, were medical and diagnostic laboratories (14 percent), gambling industries (9 percent), and advertising and related services (6 percent). A list of acceptable NAICS codes used to describe organizations' unrelated business activities was provided with the 2002 Form 990-T instructions. These activities are included within the major NAICS industrial classifica-

Figure E

High-Income Forms 990-T with At Least One Allocation Made from Other Deductions: Top Five Deduction Items with Largest Amounts Allocated, Tax Year 2002



NOTES: "High-income" Forms 990-T are those returns with gross unrelated business income of $500,000 or more. "SOI" is the abbreviation for the Statistics of Income program of the Internal Revenue Service.

Figure F

High-Income Forms 990-T with At Least One Allocation Made from Other Deductions: Top Five Organization Types[1], by Number of Returns With Allocations, Tax Year 2002

[Money amounts are in thousands of dollars]

Type of organization by Internal Revenue Code section	Number of returns	Percentage of all returns	Total amount allocated from organization type's other deductions	Allocated amount as a percentage of organization type's other deductions	Deduction item with largest aggregate allocated amount	Average amount allocated to deduction item in col. (5)
	(1)	(2)	(3)	(4)	(5)	(6)
All organizations	**485**	**100.0**	**78,776**	**9.5**	**Salaries and wages**	**344**
501(c)(3) charities²	330	68.0	56,444	9.6	Salaries and wages	435
501(c)(6) business leagues, chambers of commerce, and real estate boards	51	10.5	5,630	23.8	Employee benefit programs	146
501(c)(7) social and recreational clubs	35	7.2	5,116	29.0	Salaries and wages	202
501(c)(4) civic leagues and social welfare organizations	24	4.9	2,453	2.2	Salaries and wages	444
501(c)(5) labor, agricultural, and horticultural organizations	14	2.9	2,811	13.8	Taxes and licenses	172

[1]Tax-exempt organization types are based on the Internal Revenue Code section describing them. See the Appendix to this article for descriptions of the types of tax-exempt organizations.

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

NOTE: "High-income" Forms 990-T are those returns with gross unrelated business income of $500,000 or more.

tions of healthcare and social assistance; arts, entertainment, and recreation; and professional, scientific, and technical services, respectively. (See Table 5 for data distributed by major unrelated business activities/industrial groupings for all Form 990-T filers.)

The deductions allocation study makes it clear that Form 990-T preparers, as well as preparers of other types of exempt-organization returns, could do a much better job of accurately reporting all-inclusive amounts within the specifically defined deduction components. In order for IRS to make intelligent decisions regarding regulation, compliance, or potential abuses of tax-exempt status, it is imperative that a high priority be placed on educating nonprofit organizations and their tax practitioners to report detailed items completely and accurately. Also, because exempt organizations are not allowed to file supplementary electronic financial statements with e-filed returns (they must provide financial data in the IRS format), there is concern that if the data provided are incorrect or incomplete, there will be no additional information available with the e-filed returns, as there is with paper returns, that can be used to correct these reporting errors.

Comparing and Reconciling Unrelated Business Income Data Reported on Forms 990 and 990-T

An analysis of Tax Year 2002 data from 2,894 linked records in the Forms 990 and 990-T "integrated sample" of section 501(c)(3) public charities concludes that unrelated business income (UBI) reported on Form 990-T oftentimes cannot be reconciled with that reported on Form 990. (See the Data Sources and Limitations section of this article for a description of the Forms 990 and 990-T integrated sample design.) Anecdotal information from reviewed cases indicates that the data entered on Form 990-T are much more accurate, perhaps because the purpose of Form 990-T is to calculate tax liability, which carries a greater potential for the assessment of monetary penalties for misreporting than Form 990, whose purpose is to supply information only. Applying Form 990 weights to the sample records produced an estimated population of 8,992 public charities that were required to file both a Form 990 and a Form 990-T. The main sources of data for this analysis were Form 990, Part VII, Analysis of Income-Producing Activities, and Form 990-T, Part I, Unrelated Trade or Business Income.

Form 990, Part VII, provides a three-tiered breakout of an organization's total revenue (excluding any contributions, gifts, and grants received from Government or public sources): potentially taxable UBI reportable on Form 990-T, UBI excluded from taxation under the Internal Revenue Code, and mission-related (exempt function) income. Form 990-T, Part I, contains a statement of gross UBI, direct expenses, and net UBI.

As illustrated in Figure G, the Form 990 returns in the integrated sample were separated into three groups based on potentially taxable UBI reported in Part VII: those with positive total UBI (80 percent of all returns), those with zero UBI (13 percent of all returns), and those with negative total UBI (7 percent of all returns). Within these groups, Form 990 total UBI was compared to both total gross UBI and total net UBI reported in Part I of Form 990-T, and also compared to a computed amount of total "adjusted UBI." Adjusted UBI is derived from a combination of Form 990-T gross and net itemized UBI amounts, based on their correlation to the combination of gross and net UBI amounts required to be reported in Part VII, Form 990. If organizations had reported income consistently on both forms, it was expected that the Form 990 total UBI amount would be the same as the Form 990-T adjusted UBI amount, a value that was no more than gross UBI and no less than net UBI, depending on what types of income were reported in each individual case.

For this analysis, Form 990 UBI in most cases was deemed reconcilable with Form 990-T UBI if it matched any of gross UBI, adjusted UBI, or net UBI, within a $100 tolerance. (Cases in which no Form 990 total UBI was reported are discussed below.) Any case where Form 990 UBI equaled Form 990-T adjusted UBI, the expected outcome if UBI was correctly reported on both forms, was considered a "perfect match." Of particular note, as shown in Figure H, is that, out of the 5,567 linked returns with reconciled total UBI, 80 percent were

Figure G

Reconciliation of Unrelated Business Income (UBI) Data Reported by Public Charities on Form 990 and Form 990-T, Tax Year 2002

[Money amounts are in thousands of dollars]

Item	Number of returns	Percentage of all returns	Form 990 UBI	Form 990-T		
				Gross UBI[1]	Net UBI	Adjusted UBI [2]
	(1)	(2)	(3)	(4)	(5)	(6)
Linked returns, total	**8,992**	**100.0**	**3,807,095**	**4,089,889**	**3,343,626**	**3,771,948**
Number with Form 990 UBI greater than zero	**7,194**	**80.0**	**3,869,524**	**3,574,474**	**3,009,050**	**3,411,944**
Number with UBI that could not be reconciled [3]	2,447	27.2	1,870,317	1,521,271	1,253,569	1,433,963
Number with Form 990 UBI equal to zero	**1,183**	**13.2**	**--**	**270,348**	**225,634**	**236,913**
Number with UBI that could not be reconciled [3]	853	9.5	--	251,173	229,754	234,908
Number with Form 990 UBI less than zero	**614**	**6.8**	**-62,429**	**245,067**	**108,942**	**123,091**
Number with UBI that could not be reconciled [3]	124	1.4	-29,903	181,211	131,100	132,128

[1] All returns in the Form 990-T sample had gross unrelated business income of $1,000 (the filing threshold) or more.

[2] Adjusted UBI is derived from a combination of Form 990-T gross and net itemized UBI amounts, based on their correlation to the combination of gross and net UBI amounts required to be reported on Form 990.

[3] The amount of total UBI reported on Form 990, Part VII, does not equal gross UBI, net UBI, or adjusted UBI (within $100 tolerance) reported on Form 990-T, Part I.

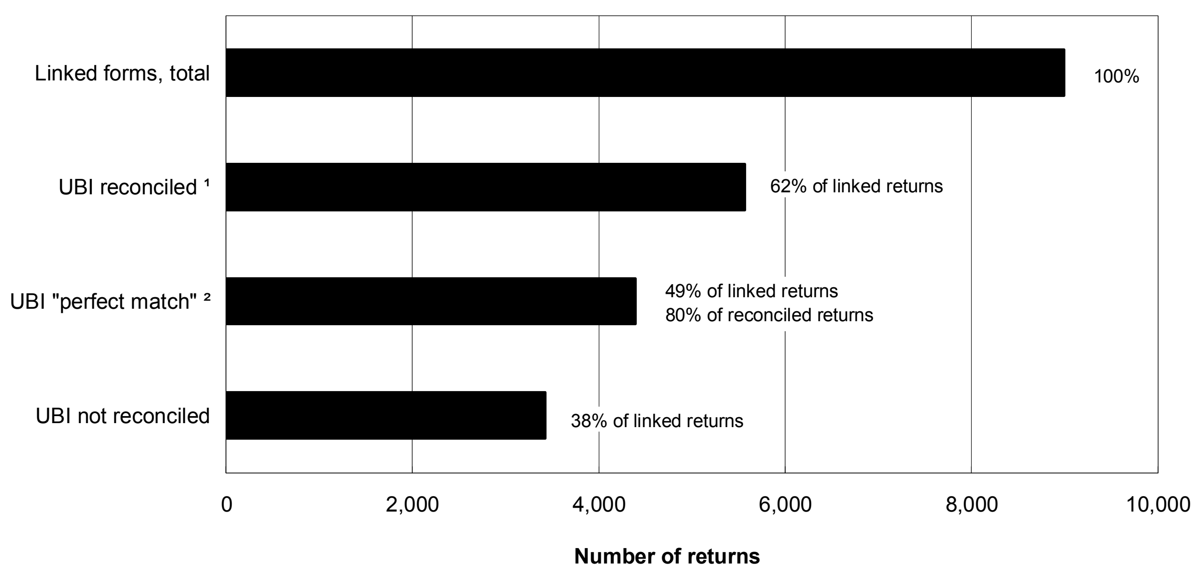
perfect matches of Form 990 UBI and Form 990-T adjusted UBI.

UBI reported on nearly 4 out of every 10 Forms 990 could not be reconciled with UBI reported on Form 990-T, meaning that total UBI on Form 990 did not match gross UBI, net UBI, or adjusted UBI on Form 990-T, within the $100 tolerance. The reasons for the inconsistency are twofold: some filers reported a combination of gross and net taxable income that differed from that specified in the Form 990 instructions; other filers did not report taxable UBI on Form 990 at all. Of the 7,194 returns where the Form 990 UBI amount was positive, 34 percent could not be reconciled. In some observed cases, the Form 990 amounts simply did not correspond to any Form 990-T amounts. In many other cases, filers of Form 990 erroneously reported Gross receipts from sales and services in Part VII, rather than Gross profit from sales and services, which is the net of gross receipts minus cost of goods sold. Gross profit, not gross receipts, should be included in total UBI on both Forms 990 and 990-T.

Twenty-eight percent of the 1,183 organizations that reported no potentially taxable UBI amounts on Form 990 filed Form 990-T with net UBI that was negative. Organizations may have presumed that negative net UBI amounts need not be reported on Form 990. These cases were not deemed irreconcilable for this analysis. However, 72 percent of the organizations reporting no taxable UBI on Form 990 filed Form 990-T with positive amounts of gross, net, and adjusted UBI. There is no known reason for this, with the exception of some degree of nonreporting on Form 990.

Figure H

Linked Forms 990 and 990-T of Public Charities: Unrelated Business Income (UBI) Reconciliation Outcome, Tax Year 2002



[1] For this analysis, Form 990 UBI was deemed reconcilable with Form 990-T UBI if it matched any of gross UBI, adjusted UBI, or net UBI on Form 990-T, within a $100 tolerance. Linked cases in which Form 990-T net UBI was negative and Form 990 UBI was zero were also deemed reconcilable.

[2] Any case where Form 990 UBI corresponded to Form 990-T adjusted UBI, the expected outcome if total UBI was reported correctly on both forms, was considered a "perfect match."

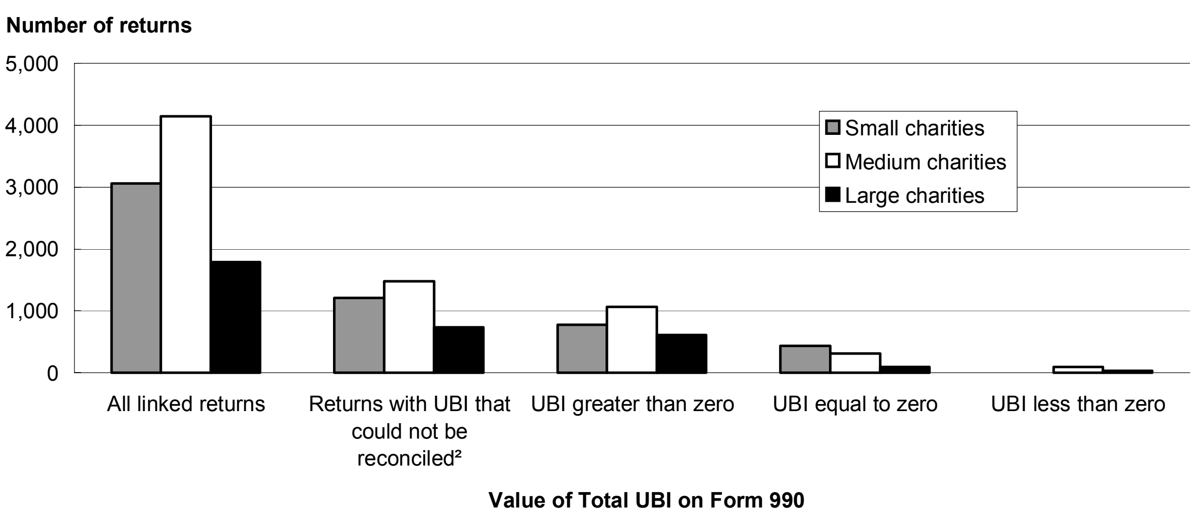
About one-fifth of the 614 organizations reporting negative UBI on Form 990 filed a Form 990-T with positive amounts of gross, net, and adjusted UBI. In some cases, negative amounts entered on Form 990 for Gain or loss from sales of investment assets were not reported on Form 990-T. As mentioned earlier, income from investments is generally not considered unrelated business income for public charities that file Forms 990 and 990-T. Therefore, net investment income or losses should be reported on Form 990 in Part I, but not in Part VII as UBI.

An exception to the UBIT rules regarding investment income applies to public charities that produce income from debt-financed property, in which case the income is subject to the unrelated business income tax. Public charities are required to provide detailed information about income from debt-financed property on Form 990-T, Schedule E, *Unrelated Debt-Financed Income*. This schedule contains several financial items used to compute the amount of debt-financed income that is subject to UBIT. In the above described cases, where organizations reported losses from sales of investment assets on Form 990, Part VII, there was no debt-financed income reported on Form 990-T, within Part I or on Schedule E. In other irreconcilable cases involving the reporting of debt-financed income, organizations reported debt-financed income on both forms, but 1) the Form 990 amount was negative, and the Form 990-T amount was either positive or a smaller negative; or 2) the amounts on both forms were negative and equal, but positive amounts of other UBI components that were reported on Form 990-T were not reported on Form 990. In many other irreconcilable cases, negative entries on Form 990 could not be correlated with any amount reported on Form 990-T.

Figure I presents distributions, by organization size, of the 3,424 linked Form 990 and Form 990-T cases with total UBI that could not be reconciled [12]. The linked returns are grouped by the three categories of total UBI reported on Form 990 that were discussed above: greater than zero, equal to zero, and less than zero. Of the 8,992 Form 990 filers in the linked return study, 34 percent were small

Figure I

Linked Forms 990 and 990-T of Public Charities with Total Unrelated Business Income (UBI) That Could Not Be Reconciled, by Organization Size[1], Tax Year 2002



[1]For purposes of analysis, "small" charities hold less than $1 million in book value of total assets; "medium"charities hold from $1 million to less than $50 million in book value of total assets; and "large" charities hold $50 million or more in book value of total assets.

[2]For this analysis, Form 990 UBI in most cases was deemed not reconcilable with Form 990-T UBI if it did not match any gross UBI, adjusted UBI, or net UBI Form 990-T amount within a $100 tolerance.

charities, 46 percent were medium charities, and 20 percent were large charities. The proportions of small, medium, and large charities shown in Figure I for all irreconcilable returns and for those irreconcilable returns with positive Form 990 total UBI are very similar to the size proportions found within the overall population of linked returns. That was not the case for irreconcilable returns where no Form 990 UBI was reported or Form 990 UBI was negative. Small charities had a greater tendency than medium and large charities to report total UBI on Form 990-T, but not on Form 990. They accounted for half of the 853 Forms 990 on which Form 990-T UBI was omitted. The relatively small number of cases with irreconcilable negative total UBI on Form 990 was attributable mainly to medium-size charities, which filed about three-quarters of these 124 returns.

For each taxable UBI item entered on Form 990, the filer is instructed to provide an associated business activity code from a list of NAICS codes. In 36 percent of the linked Forms 990 and 990-T cases, the primary unrelated business activity indicated on the organization's Form 990-T did not match any activity code reported in Part VII of Form 990 for each itemized taxable UBI amount. This, along with UBI reporting inconsistencies, seems indicative of preparers who fill out Form 990 and 990-T exclusive of any attempted reconciliation of reporting of information on the two forms.

Researchers, both in and outside of IRS, use Form 990 to make assessments of nonprofits' financial activities, operations, and programs. Form 990, Part VII, for example, provides data that should be useful for gauging how much of an organization's income is from taxable unrelated business activities and what types of activities are producing the income. Currently, an IRS team is designing a revised Form 990 that will be geared toward obtaining data that will be useful for better regulation and oversight of nonprofit and other tax-exempt organizations. Taxpayer education, comprehensive IRS form instructions, and complete and accurate reporting by return preparers are vital for making the Form 990 a consistent and reliable tool for research and public accountability.

Summary

During 2003 and 2004, tax-exempt organizations filed an estimated 35,103 Forms 990-T, *Exempt Organization Business Income Tax Returns*, for Tax Year 2002. Compared to Tax Year 2001, organizations reporting "unrelated business income" (UBI) filed only slightly fewer returns for 2002, but it was the fourth consecutive year for which filings of Form 990-T declined. From Tax Year 1998 to Tax Year 2002, the number of filings dropped nearly 25 percent. After offsetting $7.8 billion of total gross UBI with $7.9 billion of expenses and deductions, the resulting unrelated business taxable income (less deficit) for 2002 was $-0.1 billion. Unrelated business taxable income (UBTI) and the associated unrelated business income tax (UBIT) decreased by 18 percent and 14 percent, respectively, over amounts reported for 2001. For the 4 years between 1998 and 2002, UBTI and UBIT each declined by approximately 61 percent.

This article contains analyses from two special studies of exempt-organization reporting quality on Form 990, *Return of Organization Exempt from Income Tax*, and Form 990-T. The Form 990-T deductions allocation study measures the extent to which high-income organizations (those with gross UBI of $500,000 or more) misreported specifically defined, itemized deduction components as "Other deductions" on Tax Year 2002 Forms 990-T. After allocation, the increase in the total amount of each specifically defined deduction category reported by high-income filers ranged from 3 percent to 45 percent. A second special study, comparing total unrelated business income (UBI) amounts reported on Forms 990 and 990-T, revealed that total UBI reported on nearly 4 out of every 10 Forms 990 could not be reconciled with total UBI reported on Form 990-T. The main reasons for this were twofold: some Form 990 filers reported a combination of gross and net taxable income that differed from the combination specified in the return form instructions; other filers did not report total UBI on Form 990 at all.

Data Sources and Limitations

The Tax Year 2002 Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special "integrated" sample. The integrated sample was designed to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for section 501(c)(3) organizations that filed both Form 990, *Return of Organization Exempt from Income Tax* (or Form 990-EZ, the short-form version of this information return), and Form 990-T. This integrated sampling program ensured that the Statistics of Income sample of Forms 990-T included any unrelated business income tax returns (with gross UBI of $1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernouli sampling. Section 501(c)(3) returns not selected randomly were then linked, by Employer Identification Number (EIN), to returns in the Forms 990/990-EZ sample. These linked returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the "integrated" IRC section 501(c)(3) portion of the Form 990-T sample [13].

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

Figure J

Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2002

Sample group number	Size of gross unrelated business income (UBI) on Form 990-T and size of total assets on matching IRC section 501(c)(3) Form 990 or Form 990-EZ [1]	Population counts	Sample counts	Designed sample rate	Achieved sample rate
				Percentages	
		(1)	(2)	(3)	(4)
1	Gross UBI $1,000 under $20,000 and total assets under $1,000,000, or Gross UBI $1,000 under $20,000 and no matching Form 990 or Form 990-EZ	15,021	317	2.00	2.11
2	Gross UBI $1,000 under $20,000 and total assets $1,000,000 under $2,500,000, or Gross UBI $20,000 under $60,000 and total assets under $2,500,000, or Gross UBI $20,000 under $60,000 and no matching Form 990 or Form 990-EZ	6,853	301	4.00	4.39
3	Gross UBI $1,000 under $60,000 and total assets $2,500,000 under $10,000,000, or Gross UBI $60,000 under $150,000 and total assets under $10,000,000, or Gross UBI $60,000 under $150,000 and no matching Form 990 or Form 990-EZ	5,580	532	10.00	9.53
4	Gross UBI $1,000 under $150,000 and total assets $10,000,000 under $30,000,000, or Gross UBI $150,000 under $300,000 and total assets under $30,000,000, or Gross UBI $150,000 under $300,000 and no matching Form 990 or Form 990-EZ	2,950	942	30.00	31.93
5	Gross UBI $300,000 or more, or total assets $30,000,000 or more	4,832	4,832	100.00	100.00
	All sample groups [2]	**35,236**	**6,924**	**N/A**	**N/A**

N/A--Not applicable.

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

[2] After excluding returns that were originally selected for the sample but later rejected, the sample size was 6,893, and the estimated population size was 35,103.

The population from which the 2002 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 2003 and 2004. Returns filed after Calendar Year 2004 were not included in the sample, unless a return was considered a large income-size case (over $300,000 or more of gross UBI). The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 6,924 returns was selected from a population of 35,236. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 6,893 returns, and the estimated population size was 35,103. Rejected returns included those that had gross UBI below the $1,000 filing threshold; were filed for a part-year accounting period for 2002, and a full-year return was also filed for that year; or were filed for a part-year accounting period that began in a year other than 2002. For example, a final return filed for the short period of January 2003-June 2003 may have been initially selected for the 2002 sample based on the criterion of an accounting period that ended between December 2002 and November 2003, but it was later rejected because, in actuality, it was a Tax Year 2003 return.

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

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure K shows CVs for selected financial data. CVs are not shown for returns with gross UBI of $300,000 or more because they were sampled at a 100-percent rate and, therefore, are not subject to sampling variability. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *SOI Bulletin*.

Figure K

Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 2002

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
	Coefficient of variation (percentages)				
	(1)	(2)	(3)	(4)	(5)
Total	**0.15**	**0.57**	**0.59**	**1.19**	**1.05**
$1,000 under $10,001 [1]	2.69	4.40	10.87	9.87	11.94
$10,001 under $100,000 [1]	2.77	2.28	2.93	7.52	9.47
$100,000 under $300,000	2.43	1.94	2.35	6.44	7.38
$300,000 or more	N/A	N/A	N/A	N/A	N/A

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

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

Explanation of Selected Terms

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

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

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

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

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

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

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

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

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

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

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

Unrelated Business Income Tax Returns, 2002: Financial Highlights and Special Analyses of Exempt-Organization Reporting Quality

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

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

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

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

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

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

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

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

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

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

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

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

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

Total Deductions.--Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded cost of sales and services ($2.4 billion for 2002), which was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI). (See the explanation of Cost of Sales and Services.)

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

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

Unrelated Business Income Tax.--This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for the 2002 Tax Year, as shown in the following schedules.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
$ 0	$1,850	15.0%	$0
1,850	4,400	$277.50 + 27.0%	1,850
4,400	6,750	966.00 + 30.0%	4,400
6,750	9,200	1,671.00 + 35.0%	6,750
9,200	--	2,528.50 + 38.6%	9,200

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

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

Notes and References

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

[2] The proxy tax is required to be reported on Form 990-T and is included in total tax, but it has no connection to the imposition of the unrelated business income tax or an organization's involvement in unrelated business activities. A tax-exempt membership organization was liable for the proxy tax on certain nondeductible lobbying and political expenditures if the organization did not notify its members of the shares of their dues that were allocated to the nondeductible expenditures, or if the notice did not include the entire amount of dues that was allocated. (See "Proxy Tax" in the Explanation of Selected Terms section of this article for more information.) The proxy tax of $1.4 million shown in the total tax computation is only that reported by Form 990-T filers with gross unrelated business income above the $1,000 filing threshold, a criterion for selection for the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included. According to IRS Business Returns Transactions File records, total proxy tax of $12.1 million was reported on Forms 990-T for Tax Year 2002.

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

[4] All Form 990-T filers described under Internal Revenue Code sections 220(e) (Archer Medical Savings Accounts), 401(a) (pension, profit-sharing and stock bonus plans), 408(e) (traditional Individual Retirement Arrangement), 408A (Roth Individual Retirement Arrangement), 529(a) (Qualified State Tuition Plans), and 530(a) (Coverdall Education Savings Accounts) are trusts. The group of filers described under section 501(c) contains a mix of trusts and corporations, depending on an entity's choice of organizational structure when it was created (defined in the organization's articles of incorporation or association). See the Appendix to this article for a description of the various types of tax-exempt organizations subject to the unrelated business income tax provisions.

[5] Most of the statistics on tax-exempt trusts and tax-exempt corporations presented in this

section are from unpublished data from Form 990-T SOI studies conducted for Tax Years 1998, 1999, and 2002.

[6] Eighty-one percent of section 501(c)(9) voluntary employees' beneficiary associations (VEBAs) that had taxable unrelated business income for 2002 were structured as trusts, and these trusts accounted for 98 percent of the unrelated business income tax liability of all VEBA's filing Form 990-T for 2002.

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

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

[8] The unrelated business income tax (UBIT) for exempt corporations and trusts was determined based on the regular corporate and trust income tax rates in effect for the tax year of the Form 990-T filing. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules for Tax Year 2002 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

[9] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to their religious purposes. For the most recent Form 990 annual data on organizations tax-exempt under Internal Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Arnsberger, Paul D., "Charities and Other Tax-Exempt Organizations, 2002," *Statistics of Income Bulletin,* Fall 2005, Volume 25, Number 2. For the most recent data on private foundations, see Ludlum, Melissa, "Domestic Private Foundations, 1993-2002," *Statistics of Income Bulletin*, Fall 2005, Volume 25, Number 2. Internal Revenue Code section 4947(a)(1) "nonexempt charitable trusts" and section 4947(a)(2) "split-interest trusts" are required to

report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T. For information on split-interest trusts, which file Form 5227, *Split-Interest Trust Information Return,* see Schreiber, Lisa, "Split-Interest Trusts, 2003," *Statistics of Income Bulletin*, Spring 2006, Volume 25, Number 4. These reports, and statistical tables of nonexempt charitable trust data for 2002, are available from the IRS Tax Stats Web site at http://www.irs.gov/taxstats.

[10] Data collected for the deductions allocation study were controlled to provide statistics solely on amounts of itemized deductions allocated from Other deductions. Any SOI adjustments made for reasons other than allocating, such as correcting math errors, are included in both the SOI adjusted amounts and the taxpayer reported amounts.

[11] The actual number of Tax Year 2002 large-income Forms 990-T with allocations was 492. Seven returns could not be located for the study, and data on taxpayer entries of itemized deductions were not available from any other source.

[12] For purposes of analysis, "small" public charities hold less than $1 million in book value of total assets; "medium" public charities hold from $1 million to less than $50 million in book value of total assets; and "large" public charities hold $50 million or more in book value of total assets.

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

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

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

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

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

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

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

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

Table 1.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 2002

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

Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income [3]	Total tax [4]	
			Number of returns	Amount	Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All sections	**35,103**	**7,776,017**	**34,977**	**7,922,208**	**27,230**	**-146,191**	**647,246**	**14,511**	**192,747**
220(e)	--	--	--	--	--	--	--	--	--
401(a)	381	79,958	334	31,491	325	48,467	49,652	249	16,591
408(e)	2,300	13,124	2,300	3,288	2,253	9,837	9,837	2,206	3,373
408A	**	**	**	**	**	**	**	**	**
501(c)(2) [5]	286	87,717	286	91,473	229	-3,756	11,099	84	3,487
501(c)(3)	12,803	4,720,890	12,795	5,005,814	9,852	-284,924	288,853	4,183	86,001
501(c)(4)	1,484	437,329	1,462	448,785	878	-11,456	14,598	214	3,855
501(c)(5)	2,079	241,256	2,078	242,656	1,545	-1,400	19,360	651	5,126
501(c)(6)	5,483	924,341	5,483	911,889	3,889	12,452	73,346	1,762	20,775
501(c)(7)	6,372	494,524	6,325	486,541	5,400	7,983	50,067	3,662	10,680
501(c)(8)	595	130,038	595	128,594	338	1,444	3,931	221	709
501(c)(9)	733	347,553	733	252,661	426	94,892	102,233	395	35,744
501(c)(10)	245	23,962	245	25,193	206	-1,231	1,922	41	351
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	231	77,910	231	77,279	182	631	7,357	102	2,499
501(c)(13)	*114	*3,470	*114	*3,034	*114	*436	*997	*102	*211
501(c)(14)	123	45,949	123	56,372	121	-10,423	4,026	84	1,224
501(c)(15)	**	**	**	**	**	**	**	**	**
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	--	--	--	--	--	--	--	--	--
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,799	135,489	1,799	139,487	1,397	-3,998	6,795	483	1,094
501(c)(21) [6]	--	--	--	--	--	--	--	--	--
501(c)(22)	--	--	--	--	--	--	--	--	--
501(c)(23)	--	--	--	--	--	--	--	--	--
501(c)(24)	**	**	**	**	**	**	**	**	**
501(c)(25)	*25	*1,732	*25	*1,245	*25	*488	*641	*23	*96
501(c)(26)	--	--	--	--	--	--	--	--	--
501(c)(27)	**	**	**	**	**	**	**	**	**
529(a)	--	--	--	--	--	--	--	--	--
530(a)	--	--	--	--	--	--	--	--	--

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.4 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B) and 34, respectively.

[3] Includes only positive amounts of unrelated business taxable income.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $1.1 million.

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

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

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

Table 2.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2002

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income [3]	Total tax [4]	
			Number of returns	Amount	Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**35,103**	**7,776,017**	**34,977**	**7,922,208**	**27,230**	**-146,191**	**647,246**	**14,511**	**192,747**
$1,000 under $10,001 [5]	13,395	53,742	13,348	62,733	10,310	-8,991	13,624	6,868	2,444
$10,001 under $100,000 [5]	13,341	508,157	13,266	541,776	10,389	-33,619	71,541	4,584	13,280
$100,000 under $500,000	5,987	1,306,509	5,986	1,339,646	4,722	-33,138	136,918	2,237	36,772
$500,000 under $1,000,000	1,139	794,839	1,138	798,162	853	-3,324	69,732	410	21,231
$1,000,000 under $5,000,000	999	2,022,671	997	2,041,214	769	-18,543	194,002	329	64,471
$5,000,000 or more	242	3,090,100	242	3,138,677	187	-48,577	161,429	82	54,549

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.4 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B) and 34, respectively.

[3] Includes only positive amounts of unrelated business taxable income.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $1.1 million.

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

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

Table 3.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2002

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

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**35,103**	**7,776,017**	**34,977**	**7,922,208**	**27,230**	**-146,191**	**14,511**	**192,747**
Deficit	12,735	3,466,715	12,735	4,260,153	12,735	-793,438	108	650
Zero [4]	7,873	1,872,093	7,873	1,872,093	--	--	123	584
$1 under $1,000	3,232	60,533	3,232	59,225	3,232	1,308	3,227	197
$1,000 under $10,000	6,653	270,326	6,606	245,392	6,653	24,934	6,522	3,982
$10,000 under $100,000	3,663	664,768	3,588	544,351	3,663	120,417	3,592	22,328
$100,000 under $500,000	741	647,714	740	490,728	741	156,986	736	49,490
$500,000 under $1,000,000	92	224,881	91	160,677	92	64,205	90	20,825
$1,000,000 or more	114	568,987	112	289,591	114	279,396	113	94,691

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.4 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B) and 34, respectively.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $1.1 million.

[4] The Zero category includes 7,873 returns with equal amounts of gross unrelated business income and total deductions. These returns are not included in the data shown in column 5.

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

Table 4.--Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2002

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	**14,495**	**2,437,209**	**14,369**	**1,789,963**	**647,246**	**14,281**	**191,513**
$1,000 under $10,001 [4]	6,820	24,294	6,773	10,669	13,624	6,773	2,152
$10,001 under $100,000 [4]	4,621	171,812	4,546	100,270	71,541	4,514	12,954
$100,000 under $500,000	2,239	505,147	2,238	368,228	136,918	2,195	36,607
$500,000 under $1,000,000	410	279,005	409	209,273	69,732	402	21,150
$1,000,000 under $5,000,000	329	637,535	327	443,534	194,002	322	64,225
$5,000,000 or more	75	819,417	75	657,987	161,429	74	54,425
TAX-EXEMPT CORPORATIONS							
Total	**11,339**	**2,164,609**	**11,260**	**1,709,995**	**454,613**	**11,223**	**124,840**
$1,000 under $10,001 [4]	4,277	18,068	4,230	7,749	10,319	4,277	1,556
$10,001 under $100,000 [4]	4,277	160,462	4,249	98,376	62,086	4,217	9,593
$100,000 under $500,000	2,058	463,021	2,057	360,823	102,197	2,014	24,108
$500,000 under $1,000,000	377	255,598	376	203,964	51,634	370	15,235
$1,000,000 under $5,000,000	285	547,739	283	419,960	127,779	280	40,881
$5,000,000 or more	64	719,721	64	619,123	100,598	64	33,466
TAX-EXEMPT TRUSTS							
Total	**3,156**	**272,600**	**3,109**	**79,967**	**192,633**	**3,058**	**66,673**
$1,000 under $10,001 [4]	2,543	6,225	2,543	2,920	3,305	2,496	595
$10,001 under $100,000 [4]	345	11,350	297	1,894	9,456	297	3,361
$100,000 under $500,000	181	42,126	181	7,405	34,721	181	12,499
$500,000 under $1,000,000	33	23,407	33	5,309	18,098	32	5,915
$1,000,000 under $5,000,000	44	89,797	44	23,574	66,222	42	23,344
$5,000,000 or more	11	99,696	11	38,865	60,831	10	20,959

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was $710.6 million, 99 percent of which was attributable to tax-exempt corporations.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B) and 34, respectively.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive unrelated business taxable income, total proxy tax was $0.4 million.

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

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

Table 5.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2002

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income [3]	Total tax [4]	
			Number of returns	Amount	Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All activities and groupings	**35,103**	**7,776,017**	**34,977**	**7,922,208**	**27,230**	**-146,191**	**647,246**	**14,511**	**192,747**
Agriculture, forestry, hunting, and fishing	224	41,133	224	21,943	173	19,190	22,680	158	7,664
Mining	244	26,503	244	26,136	181	367	4,306	179	1,049
Utilities	30	26,162	30	25,336	26	826	*1,431	*19	*517
Construction	52	110,862	52	111,350	45	-488	*1,401	*29	*453
Manufacturing	139	57,988	139	68,228	105	-10,240	11,233	58	3,864
Wholesale trade	*63	*2,396	*63	*2,173	*62	*223	*559	*49	*139
Retail trade	1,625	441,128	1,625	501,662	1,294	-60,534	19,021	564	5,222
Transportation and warehousing	32	6,854	32	7,935	30	-1,081	1,031	4	340
Information	673	231,030	671	230,076	506	954	22,101	273	7,777
Finance and insurance, total	8,470	1,102,210	8,421	905,596	7,009	196,614	263,473	5,812	84,499
Unrelated debt-financed activities, other than rental of real estate [5]	437	100,798	437	61,805	372	38,993	48,008	211	15,677
Investment activities of Code section 501(c)(7), (9), and (17) organizations [5, 6]	3,187	366,694	3,187	256,770	2,462	109,924	118,609	2,156	38,495
Passive income activities with controlled organizations [5]	342	180,936	341	166,634	286	14,302	27,851	209	8,965
Other finance and insurance	4,505	453,782	4,456	420,387	3,889	33,396	69,005	3,236	21,362
Real estate and rental and leasing, total	6,106	941,635	6,081	928,794	4,921	12,841	106,421	2,470	29,860
Rental of personal property	620	52,796	620	52,694	486	102	5,304	210	1,196
Other real estate and rental and leasing	5,486	888,839	5,461	876,100	4,436	12,739	101,118	2,259	28,663
Professional, scientific, and technical services	7,854	1,732,006	7,854	1,784,898	5,114	-52,891	75,924	1,674	20,969
Management of companies and enterprises	4	3,567	4	1,128	4	2,439	2,476	3	837
Administrative and support and waste management and remediation services	704	335,269	704	351,506	482	-16,237	16,953	207	5,059
Educational services	12	32,602	12	37,650	8	-5,049	351	3	112
Healthcare and social assistance	993	1,348,143	991	1,468,051	837	-119,909	42,616	307	13,517
Arts, entertainment, and recreation	4,070	616,715	4,022	662,940	3,171	-46,225	26,261	1,420	4,488
Accommodation and food services	2,739	485,360	2,739	536,932	2,394	-51,572	16,702	851	3,423
Other services	698	154,288	698	170,293	608	-16,005	6,436	300	1,348
Exploited exempt activities	210	75,233	210	74,517	145	716	5,309	127	1,432
Not allocable	163	4,933	163	5,064	115	-131	*561	*5	*178

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.4 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(b) and 34, respectively.

[3] Includes only positive amounts of unrelated business taxable income.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $1.1 million.

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

[6] Section 501(c)(7) organizations are social and recreational clubs; section 501(c)(9) organizations are voluntary employees' beneficiary associations; and section 501(c)(17) organizations are supplemental unemployment benefit trusts.

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

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2002

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI): Number of returns	Gross unrelated business income (UBI): Amount	Sources of gross unrelated business income (UBI) [1]: Gross profit (less loss) from sales and services: Number of returns	Gross profit (less loss) from sales and services: Amount	Capital gain net income: Number of returns	Capital gain net income: Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**35,103**	**7,776,017**	**14,895**	**4,322,643**	**614**	**106,267**
$1,000 under $10,001 [2]	**13,395**	**53,742**	**2,864**	**10,010**	***151**	***184**
$10,001 or more, total [2,3]	**21,708**	**7,722,275**	**12,031**	**4,312,632**	**463**	**106,083**
$10,001 under $100,000	13,341	508,157	6,731	230,100	214	7,641
$100,000 under $500,000	5,987	1,306,509	3,734	707,744	159	17,842
$500,000 under $1,000,000	1,139	794,839	735	412,856	30	11,109
$1,000,000 under $5,000,000	999	2,022,671	659	1,094,952	42	38,761
$5,000,000 or more	242	3,090,100	172	1,866,979	18	30,730

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued: Net capital loss (trusts only): Number of returns	Net capital loss (trusts only): Amount	Net gain (less loss), sales of noncapital assets [4]: Number of returns	Net gain (less loss), sales of noncapital assets [4]: Amount	Income (less loss) from partnerships and S corporations: Number of returns	Income (less loss) from partnerships and S corporations: Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**147**	**930**	**250**	**4,445**	**3,977**	**180,890**
$1,000 under $10,001 [2]	***47**	***142**	***10**	***-220**	**2,793**	**7,353**
$10,001 or more, total [2,3]	**99**	**788**	**240**	**4,664**	**1,184**	**173,537**
$10,001 under $100,000	--	--	121	-160	548	10,652
$100,000 under $500,000	62	548	65	697	317	35,560
$500,000 under $1,000,000	10	30	15	242	107	20,078
$1,000,000 under $5,000,000	24	200	23	-820	150	59,219
$5,000,000 or more	3	9	16	4,706	62	48,028

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]-- Continued: Rental income [5]: Number of returns	Rental income [5]: Amount	Unrelated debt-financed income: Number of returns	Unrelated debt-financed income: Amount	Investment income (less loss) [6]: Number of returns	Investment income (less loss) [6]: Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,550**	**240,445**	**3,079**	**436,949**	**5,454**	**350,619**
$1,000 under $10,001 [2]	**1,163**	**5,415**	**866**	**3,539**	**2,606**	**7,702**
$10,001 or more, total [2,3]	**3,387**	**235,031**	**2,213**	**433,410**	**2,848**	**342,917**
$10,001 under $100,000	2,423	55,547	1,380	43,575	1,630	22,184
$100,000 under $500,000	722	63,133	590	81,312	951	43,446
$500,000 under $1,000,000	125	31,728	95	40,519	169	30,141
$1,000,000 under $5,000,000	92	47,944	120	120,796	84	94,406
$5,000,000 or more	25	36,678	28	147,208	14	152,738

Footnotes at end of table.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2002 --Continued

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

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued							
	Income from controlled organizations [7]		Exploited exempt activity income, except advertising		Advertising income		Other income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	**1,358**	**211,110**	**842**	**128,202**	**8,226**	**1,281,633**	**5,035**	**513,745**
$1,000 under $10,001 [2]	**400**	**1,100**	***181**	***1,080**	**3,387**	**13,927**	**1,131**	**3,795**
$10,001 or more, total [2,3]	**958**	**210,010**	**661**	**127,122**	**4,839**	**1,267,706**	**3,905**	**509,950**
$10,001 under $100,000	540	8,508	291	5,520	2,686	80,801	2,134	43,789
$100,000 under $500,000	249	22,890	225	17,272	1,512	220,800	1,254	96,360
$500,000 under $1,000,000	57	12,691	57	15,973	313	170,229	215	49,302
$1,000,000 under $5,000,000	75	58,568	69	45,285	265	316,355	234	147,403
$5,000,000 or more	37	107,352	19	43,072	62	479,522	68	173,096

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

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

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

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

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

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

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

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

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

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2002

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

Size of gross unrelated business income (UBI)	All organizations: Total number of returns	All organizations: Total deductions [1,2]: Number of returns	All organizations: Total deductions [1,2]: Amount	Organizations with gross UBI of $1,000 under $10,001 [3]: Total deductions [2,4]: Number of returns	Total deductions [2,4]: Amount	Net operating loss deduction: Number of returns	Net operating loss deduction: Amount	Specific deduction: Number of returns	Specific deduction: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**35,103**	**34,977**	**7,922,208**	**13,348**	**62,733**	**921**	**1,263**	**8,117**	**7,614**
$1,000 under $10,001 [3]	13,395	13,348	62,733	13,348	62,733	921	1,263	8,117	7,614
$10,001 under $100,000 [3]	13,341	13,266	541,776	--	--	--	--	--	--
$100,000 under $500,000	5,987	5,986	1,339,646	--	--	--	--	--	--
$500,000 under $1,000,000	1,139	1,138	798,162	--	--	--	--	--	--
$1,000,000 under $5,000,000	999	997	2,041,214	--	--	--	--	--	--
$5,000,000 or more	242	242	3,138,677	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross UBI of $10,001 or more [3]: Total deductions [2,5]: Number of returns	Total deductions [2,5]: Amount	Deductions directly connected with UBI: Total: Number of returns	Total: Amount	Allocable to rental income [6]: Number of returns	Allocable to rental income [6]: Amount	Allocable to unrelated debt-financed income [6]: Number of returns	Allocable to unrelated debt-financed income [6]: Amount	Allocable to investment income [6,7]: Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	**20,704**	**7,305,072**	**20,704**	**7,305,072**	**1,623**	**156,010**	**2,115**	**426,611**	**908**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	12,591	511,619	12,591	511,619	1,162	29,933	1,334	48,458	351
$100,000 under $500,000	5,800	1,265,199	5,800	1,265,199	328	40,222	550	85,515	413
$500,000 under $1,000,000	1,112	728,510	1,112	728,510	57	17,292	92	36,443	92
$1,000,000 under $5,000,000	967	1,908,607	967	1,908,607	59	33,067	113	116,738	49
$5,000,000 or more	232	2,891,138	232	2,891,138	18	35,496	26	139,457	3

Size of gross unrelated business income (UBI)	Organizations with gross UBI of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Allocable to investment income [6,7]--Continued: Amount	Allocable to income from controlled organizations [6]: Number of returns	Allocable to income from controlled organizations [6]: Amount	Allocable to exploited exempt activity income, except advertising [6]: Number of returns	Allocable to exploited exempt activity income, except advertising [6]: Amount	Direct advertising costs [6]: Number of returns	Direct advertising costs [6]: Amount	Compensation of officers, directors, and trustees: Number of returns	Compensation of officers, directors, and trustees: Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	**15,018**	**467**	**147,724**	**605**	**120,403**	**4,450**	**923,970**	**1,766**	**38,242**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	1,300	225	6,477	281	4,533	2,463	65,959	929	8,660
$100,000 under $500,000	4,100	128	15,747	192	18,192	1,383	153,724	604	13,018
$500,000 under $1,000,000	1,580	39	9,074	54	12,983	301	125,396	101	3,516
$1,000,000 under $5,000,000	5,833	48	33,622	62	44,591	245	223,681	107	8,323
$5,000,000 or more	2,206	27	82,805	16	40,104	57	355,210	26	4,723

Size of gross unrelated business income (UBI)	Organizations with gross UBI of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs and maintenance: Number of returns	Repairs and maintenance: Amount	Bad debts: Number of returns	Bad debts: Amount	Interest: Number of returns	Interest: Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**10,063**	**1,517,666**	**6,935**	**117,790**	**918**	**43,132**	**2,912**	**61,518**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,260	112,517	3,546	16,065	304	276	1,387	6,263
$100,000 under $500,000	3,410	345,539	2,445	31,590	326	1,507	1,112	16,075
$500,000 under $1,000,000	652	174,121	456	13,591	104	1,710	211	9,340
$1,000,000 under $5,000,000	585	403,065	383	23,701	129	10,151	148	18,929
$5,000,000 or more	156	482,423	104	32,843	54	29,488	54	10,912

Footnotes at end of table.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2002 --Continued

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions directly connected with UBI--Continued: Taxes and licenses paid deduction: Number of returns	Amount	Depreciation: Number of returns	Amount	Depletion: Number of returns	Amount	Contributions to deferred compensation plans: Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**10,169**	**161,329**	**7,689**	**221,587**	**94**	**3,457**	**981**	**12,204**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	5,828	22,032	4,152	24,370	*74	*730	446	478
$100,000 under $500,000	3,224	65,653	2,496	57,052	*12	*937	360	2,047
$500,000 under $1,000,000	557	26,370	469	26,991	**	**	**	**
$1,000,000 under $5,000,000	444	29,139	438	54,935	**7	**1,790	**175	**9,679
$5,000,000 or more	116	18,135	134	58,238	**	**	**	**

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions directly connected with UBI--Continued: Contributions to employee benefit programs: Number of returns	Amount	Net operating loss deduction: Number of returns	Amount	Other deductions: Number of returns	Amount	Deductions not directly connected with UBI: Total: Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**4,960**	**212,057**	**3,296**	**164,487**	**13,598**	**2,961,868**	**10,430**	**554,402**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	2,127	7,366	1,893	15,087	7,629	141,114	6,192	30,156
$100,000 under $500,000	1,815	29,508	963	29,038	4,217	355,737	3,045	74,447
$500,000 under $1,000,000	442	21,733	181	20,667	804	226,235	601	69,652
$1,000,000 under $5,000,000	447	62,739	203	44,810	753	791,001	474	132,607
$5,000,000 or more	129	90,712	55	54,885	195	1,447,781	117	247,539

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions not directly connected with UBI--Continued: Specific deduction: Number of returns	Amount	Charitable contributions: Number of returns	Amount	Set-asides [7]: Number of returns	Amount	Excess exempt expenses [8]: Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**8,031**	**7,635**	**1,456**	**32,740**	**351**	**223,387**	**2,314**	**290,640**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	4,917	4,611	735	2,577	*195	*6,490	1,130	16,479
$100,000 under $500,000	2,288	2,208	487	6,890	90	15,135	769	50,215
$500,000 under $1,000,000	427	418	100	10,704	28	15,004	199	43,527
$1,000,000 under $5,000,000	324	323	100	8,237	30	48,297	171	75,749
$5,000,000 or more	75	75	34	4,333	9	138,462	45	104,670

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

**Data in adjacent size classes are combined to avoid disclosure of information about specific taxpayers.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.4 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B) and 34, respectively.

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

[4] Excludes $48.5 million of cost of sales and services reported by organizations with gross UBI of $10,000 or less. See footnote 1 for explanation.

[5] Excludes $2.3 billion of cost of sales and services reported by organizations with gross UBI over $10,000. See footnote 1 for explanation.

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

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

[8] Includes excess exempt-activity expenses from Form 990-T, Schedule I, and excess readership costs from Form 990-T, Schedule J.

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