Instructions for Form 990-T

Exempt Organization Business Income Tax Return (and Proxy Tax Under Section6033(e))

Volume 2 of 3

Department of the Treasury
Internal Revenue Service

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Credit for Small Employer Health Insurance

Premiums

Line 6f. An organization described in section 501(c) which is exempt from tax under section 501(a) may be eligible to claim the refundable small employer tax credit for a percentage of certain health insurance premiums paid on behalf of its employees.

A tax-exempt eligible small employer can request the refundable credit by attaching Form 8941, Credit for Small Employer Health Insurance Premiums, showing the calculation for the amount of the refundable credit claimed. A tax-exempt organization is eligible for the refundable credit if it is an organization that is described in section 501(c) which is exempt from tax under section 501(a). The organization must keep records to substantiate the amount of the credit claimed.

TIP *If a tax-exempt eligible small employer is filing Form 990-T only to request a credit for small employer health insurance premiums paid, complete the following steps.*

1. *Fill in the heading (the area above Part I) except items J and K. Check the box for “Credit from Form 8941” in item H*
2. *Enter -0- on Part I, line 11, and Part III, line 4.*
3. *Enter the credit from Form 8941, line 20, on Part III, line 6f.*
4. *Complete Part III, lines 7, 10, and 11, and the signature area.*

Elective payment election

Line 6g. Enter the elective payment election amount from Form 3800. See the Instructions for Form 3800. On line 6g, enter the total net elective payment election amount from Form 3800, Part III, line 6, column (i).

Tax on Undistributed Long-Term Capital Gain by RIC or Reit

Line 6h. Enter the elective payment election amount from Form 3800. See the Instruction for Form 3800.

Enter the amount of tax paid by a regulated investment company (RIC) or real estate investment trust (REIT) on undistributed long-term capital gains. Attach each Form 2439 you received from each RIC or REIT of which you are a shareholder. If you are filing a composite Form 990-T, see *Composite Form 990-T* under *Which Parts To Complete*, earlier.

Credit for Federal Excise Tax Paid on Fuels

Line 6i. If you paid a federal excise tax on certain fuels and qualify for any of the credits listed below, attach Form 4136 to your return and enter the total credit on line 6i.

- The biodiesel or renewable diesel mixture credit
- The alternative fuel credit.
- A credit for certain nontaxable uses (or sales) of fuel during your income tax year.
- A credit for blending a diesel-water fuels emulsion.
- A credit for exporting dyed fuels or gasoline blendstocks.
- Substainable aviation fuel (SAF) credit.

See the instructions for Form 4136 for more information about these credits.

Note: Form 8849, *Claim for Refund of Excise Taxes, may be used to claim a periodic refund of excises taxes instead of waiting to claim a credit on Form 4136. See the Instructions for Form 8849 and Pub. 510, Excise Taxes.*

Other Credits

Line 6j. For other credits, check the “Other ” box and provide the following information:

- The number of the form used to calculate the credit, or the code section that establishes the credit,
- A brief description of the credit, and
- The amount of the credit.

If necessary, provide information required to claim a specific credit in Part V, Supplemental Information. Other credits may include the following:

- The credit for ozone-deleting chemicals. Include any credit the organization is claiming under section 4682(g) for taxes paid on chemicals under as propellants in metered-dose inhalers.
- The amount of current year net section 965 tax liability, For a trust, this amount

will be from Form 956-A, Part I, column (d), line 4.

Note: Do not use Part III, line 6j, to claim a refund of federal tax withheld and shown on Form 1099, Claims for refund of backup withholding should be shown on Part III, line 6e.

Estimated Tax Penalty

Line 8. Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the organization owes a penalty and its amount. Generally, the organization isn't required to file this form because the IRS can figure the amount of any penalty and notify the organization. However, even if the organization doesn’t owe the penalty, you must complete and attach Form 2220 if either of the following applies.

- The annualized income or adjusted seasonal installment method is used.

- The organization is a “large organization” computing its first required installment based on the prior year's tax.

If you attach Form 2220, check the box on Form 990-T, Part III, line 8, and enter the amount of any penalty on this line.

Tax Due

Line 9. You must pay the tax in full when the return is filed. You may pay by EFTPS. For more information about EFTPS, see *Electronic Deposit Requirement*, earlier. Also, you may pay by credit or debit card.

To pay by credit or debit card. For information on paying your taxes electronically, including by credit or debit card, go to *IRS.gov/E-pay*.

Part IV. Statements Regarding Certain Activities and Other Information

Complete all lines in Part IV.

Line 1. Check “Yes” if either item (1) or (2) below applies.

1. At any time during the year the organization had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); and

   a. The combined value of the accounts was more than $10,000 at any time during the year; and

   b. The accounts were not with a U.S. military banking facility operated by a U.S. financial institution.

2. The organization owns more than 50% of the stock in any corporation that would answer “Yes” to item (1).

If the “Yes” box is checked, write the name of the foreign country or countries. If the list of foreign country names will not fit in the available space, continue the list in Part V, Supplemental Information.

Get FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to see if the organization is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). If the organization is required to file this form, file FinCEN Form 114 electronically with the Department of the Treasury using FinCEN's BSA E-Filing System. Because FinCEN Form 114 isn't a tax form, don't file it with Form 990-T.

See *FinCEN* for more information.

Line 2. The organization may be required to file Form 3520,

Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, if either of the following applies.

- It directly or indirectly transferred money or property to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.

See the Instructions for Form 3520.

An owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner. For details, see the Instructions for Form 3520-A.

Line 3. Report any tax-exempt interest received or accrued in the space provided. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC.

Line 4. Use line 4 to show the amount of the NOL carryover to the tax year from tax years prior to 2018 (“pre-2018 NOL”), even if some of the loss is used to offset income on this return. The amount to enter is the total of all pre-2018 NOLs generated in any year prior to 2018, and not used to offset income (either as a carryback or carryover) to a tax year prior to 2023. Do not reduce the amount by any NOL deduction reported on Part I, line 6.

Line 5. Use the table in line 5 to show the amount of each NOL carryover from tax years after 2017 that is attributable to each separate trade or business conducted at any time after 2017 (“siloed post-2017 NOL”) to the tax year. Include the NOL for each separate trade or business conducted after

2017, even if a Schedule A for any one or more specific trades or businesses isn’t included with this return for this tax year. Report the full amount of the available NOL for each separate trade or business, even if some of the loss is used.

In the first column under line 5, identify the business activity code to which each NOL relates. In the second column, enter the total amount of each siloed post-2017 NOL generated in any prior year after 2017 and not used to offset income (either as a carryback or carryover) to a tax year prior to 2023 to offset income reported on a Schedule A filed for that separate trade or business on this return. Don’t reduce the amount by any NOL deduction reported on Schedule A, Part II, line 17. See *Separate Trades or Businesses*, later, for information about changing the business activity code associated with a particular trade or business, and the effect of such a change on NOLs.

Part V. Supplemental Information

Use Part V to provide the IRS with narrative information required for responses to specific questions on Form 990-T, and to explain the organization’s operations or responses to various questions.

Signature

Corporations. The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, or chief accounting officer, or by any other corporate officer (such as a tax officer) authorized to sign. Receivers, trustees, or assignees must also sign and date any return filed on behalf of the organization.

Trusts. The return must be signed and dated by the individual fiduciary, or by the authorized officer of the trust receiving or having custody or control and management of the income of the trust. If two or more individuals act jointly as fiduciaries, any one of them may sign.

Special rule for IRA trusts. A trustee of IRA trusts may use a facsimile signature if all of the following conditions are met. • Each group of returns sent to the IRS must be accompanied by a letter signed by the person authorized to sign the returns declaring, under penalties of perjury, that the facsimile signature appearing on the returns is the signature adopted by that person to sign the returns filed and that the signature was affixed to the returns by that person or at that person's direction.

- The letter must also list each return by the name and EIN of the IRA trust.
- After the facsimile signature is affixed, no entries on the return may be altered other than to correct discernible arithmetic errors.

- A manually signed copy (of the letter submitted to the IRS with the returns and a record of any arithmetic errors corrected) must be retained on behalf of the IRA trusts listed in the letter and it must be available for inspection by the IRS.

Paid preparer. If an officer of the organization filled in its return, the paid preparer's space should remain blank. Anyone who prepares the return but doesn’t charge the organization should not sign the return. Certain others who prepare the return should not sign. For example, a regular, full-time employee of the organization, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare the organization's tax return must sign it and fill in the *Paid Preparer Use Only* area.

The paid preparer must complete the required preparer information and do the following.

- Sign the return in the space provided for the preparer's signature.
- Give a copy of the return to the organization.

Note. A paid preparer may sign original returns, amended returns, or requests for filing extensions by rubber stamp, mechanical device, or computer software program. Also, facsimile signatures are authorized.

Paid preparer authorization. If the organization wants to allow the IRS to discuss this tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the return. This authorization applies only to the individual whose signature appears in the *Paid Preparer Use Only* section of its return. It doesn’t apply to the firm, if any, shown in that section.

If the “Yes” box is checked, the organization is authorizing the IRS to call the paid preparer to:

- Give the IRS any information that is missing from its return;
- Call the IRS for information about the processing of its return or the status of its refund or payment(s); and
- Respond to certain IRS notices that the organization has shared with the preparer about a math error, offsets, and return preparation. The notices won't be sent to the preparer.

The organization isn't authorizing the paid preparer to receive any refund check, bind the organization to anything (including any additional tax liability), or otherwise represent the organization before the IRS. If the organization wants to expand the paid preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization can’t be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing next year's Form 990-T.

CAUTION

Enter the paid preparer’s Preparer Tax Identification Number (PTIN), not their SSN, in the “PTIN” box in the paid preparer’s block. Because Form 990-T is publicly disclosable when filed by a 501(c)(3) organization, any information entered in this block will be publicly disclosed. For more information about PTINs, go to IRS.gov/Taxpros.

General Instructions — Schedule A (Form 990-T)

Purpose of the Schedule

Complete a separate Schedule A to report income and allowable deductions for each separate unrelated trade or business.

Separate Trades or Businesses

An exempt organization may engage in more than one unrelated trade or business. Prior to the enactment of section 512(a)(6), an exempt organization deriving gross income from the regular conduct of two or more unrelated trades or businesses calculated UBTI by determining its aggregate gross income from all such unrelated trades or businesses and reducing that amount by the aggregate deductions allowed with respect to all such unrelated trades or businesses. However, section 512(a)(6) changed this calculation for exempt organizations with more than one unrelated trade or businesses so that, in the case of any exempt organization with more than one unrelated trade or business:

- UBTI, including for purposes of determining any NOL deduction, shall be computed separately with respect to each trade or business and without regard to section 512(b)(12) (allowing a specific deduction of $1,000);
- The UBTI of such exempt organization shall be the sum of the UBTI so computed with respect to each trade or business, less a specific deduction under section 512(b)(12); and
- For purposes of section 512(a)(6)(B), UBTI with respect to any such trade or business shall not be less than zero.

Thus, under section 512(a)(6), an exempt organization may not aggregate income and deductions from all unrelated trades or businesses when calculating UBTI.

An organization determines whether it regularly carries on one or more unrelated trades or businesses by applying sections 511 through 514. Identify each separate trade or business using the first two digits of the NAICS two-digit code that most accurately describes the unrelated trade or business based on the more specific NAICS code, such as at the six-digit level. Identify activities in the nature of investments, which aren’t described in NAICS, using the appropriate business activity code described under *Non-NAICS Business Activity Codes*, later.

An organization will use each NAICS two-digit code only once. For example, a hospital organization that operates several hospital facilities that include pharmacies that sell goods to the general public would include all the pharmacies under the NAICS two-digit code for retail trade, regardless of whether the hospital organization keeps separate books and records for each pharmacy.

Once a two-digit NAICS code or business activity code is used for an unrelated trade or business, you should continue to use that same code in subsequent tax years. If it is necessary to change the two-digit NAICS code or business activity code previously used for an unrelated trade or business, you must report the change in a statement attached to the Schedule A on which the activities are reported. The statement should include (1) the two-digit NAICS code or business activity code used in the previous tax year; (2) the two-digit NAICS code or business activity code used this year and, if filing more than one Schedule A, the sequence numbers from item D of the applicable Schedule A; and (3) a narrative explanation describing the reason for the change.

CAUTION *See Regulations section 1.512(a)-6(h)(4) regarding the potential effects on NOL carryforwards upon a change* *of the two-digit NAICS code for an unrelated trade or business.*

CAUTION

Regulations section 1.512(a)-6(c)(9) describes a transition rule for certain partnership interests. The transition period ended on the first day of the first tax year beginning after December 2, 2020.

Dual-Use Property

Section 512(a)(1) permits an exempt organization with an unrelated trade or business to reduce the income from that trade or business by the deductions allowed by Chapter 1 that are directly connected with the carrying on of such trade or business. To be "directly connected" with a trade or business, an item of deduction must have a proximate and primary relationship to the carrying on of the unrelated trade or business generating the gross income. See Regulations section 1.512(a)-1(a). Expenses, depreciation, and similar items attributable solely to the conduct of an unrelated trade or business are proximately and primarily related to that trade or business and qualify to reduce income from such trade or business under section 512(a)(1) to the extent such items meet the requirements of section 162 (trade or business expenses), section 167 (depreciation), and other relevant provisions. To the extent that an exempt organization may have items of deduction that are shared between an exempt activity and an unrelated trade or business, Regulations section 1.512(a)-1(c) provides special rules for allocating such expenses. For example, if facilities are used both to carry on exempt activities and to conduct unrelated trade or business activities, then expenses, depreciation, and similar items attributable to such facilities must be allocated between the two uses on a reasonable basis. See Regulations section 1.512(a)-1(c). The allocation issues under section 512(a)(1) are also relevant under section 512(a)(6) because an exempt organization with more than one unrelated trade or business must not only allocate indirect expenses among exempt and taxable activities, as described in Regulations section 1.512(a)-1(c) but also among separate unrelated trades or businesses.

The allocation of expenses, depreciation, and similar items using an unadjusted gross-to-gross method is not reasonable if the cost of providing the good or service is substantially the same but the price charged differs between related and unrelated activities.

Which Parts To Complete

Complete a separate Schedule A, Parts I and II, for each unrelated trade or business. Complete only the lines relevant to the unrelated trade or business being reported on that Schedule A.

Is gross income more than $10,000? If the sum of the amounts in all Schedules A (Form 990-T), Part I, line 13, column (A), is more than $10,000, you must complete all

Parts of each Schedule A that apply to the unrelated trade or business reported on that Schedule A.

Is gross income $10,000 or less? If the sum of the amounts in all Schedules A (Form 990-T), Part I, line 13, column (A), is $10,000 or less, complete Schedule A (Form 990-T) and Form 990-T as follows.

Schedule A (Form 990-T)

Complete the heading on each Schedule A.

Part I. Complete only the lines that apply.

1. Enter information directly in column (A) on lines 1, 3 through 5, 12, and 13.
2. Entries for lines 2, and 6 through 11, must be made on the Part referenced in the text for the line in Part I. For example, enter the amount for Part I, line 2, on Part III, line 8. For Part I, line 6, columns (A) and (B), enter the

amounts on Part IV, line 3 and line 5, respectively.

3. Make entries as necessary to complete the applicable lines in column (C).

Part II. Complete lines 15–18, and if necessary, the attachment to line 17 (NOL deduction).

Form 990-T

1. Complete all applicable lines in the heading area.
2. Complete all applicable lines as needed to determine the appropriate tax, applicable credits, and balance due or refund amount.
3. Complete the signature area.

If an entry for a line on Part I or Part II must be made on a different Part of Schedule A, complete only the lines in the Part that reference a specific line on Part I *or Part II. Leave all other lines in the applicable Part blank.*

Filers with gross income of $10,000 or less, as described above, don't have to complete Schedule A, Parts III though X (except as described above because certain entries must be made in those sections to populate lines in Parts I and II). However, refer to the applicable Parts of Schedule A when completing Schedule A, Part I, column (A), and in determining the deductible expenses to include on Schedule A, Part I, line 13, column (B).

Exceptions and Special Rules

Member income of mutual or cooperative electric companies. Income of a mutual or cooperative electric company described in section 501(c)(12), which is treated as member income under subparagraph (H) of that section, is excluded from UBTI.

Income from qualifying shipping activities. The organization's gross income doesn’t include income from qualifying shipping activities (as defined in section 1356) if the organization makes an election under section 1354 on a timely filed return (including extensions) to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate rate. If the election is made, the organization generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. An organization making this election may also elect to defer gain on the disposition of a qualifying vessel under section 1359. Use Form 8902 to figure the tax. Include the alternative tax on Form 990-T, Part III, line 3e.

Passive loss and at-risk limitations. Under section 469, certain taxpayers, including certain tax-exempt organizations, may not deduct a passive activity loss (PAL). Such tax-exempt organizations ("affected tax-exempt organizations") include a trust (such as a trust described in section 501(c), a trust described in section 401(a), or an IRA), and a corporation if at any time during the last half of its tax year more than 50% in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for not more than five organizations that are private foundations under section 509(a) or are described in section 401(a) or 501(c)(17) (for example, a stock corporation described in section 501(c)(2) with a 401(a) parent or private foundation parent).

A PAL occurs when total losses (including prior-year unallowed losses) from all the organization's passive activities exceed the total income from all its passive activities. Generally, passive activities include (1) trade or business activities in which the organization didn't materially participate for the tax year; and (2) rental activities, regardless of your participation. If the organization has income or loss from a passive activity, several lines on Form 990-T and Schedule A (Form 990-T) may be affected by these rules.

PALs can’t be used to offset income from nonpassive activities. Passive activity income doesn’t include portfolio income. Portfolio income (see Temporary Regulations section 1.469-2T(c)(3)) is income from a nonpassive activity. Portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest, dividends, annuities, and royalties (by contrast, a bank's receipt of interest is in the ordinary course of a trade or business, as is a securities dealer's receipt of dividends). Portfolio income also includes gain or loss from the disposition of property that produces portfolio income or is held for investment (see section 163(d)(5)). The rule treating portfolio income as not from a passive activity doesn’t apply to the extent that income, of a type generally regarded as portfolio income, is derived in the ordinary course of a trade or business. For example, the business income of a bank typically is largely interest. Similarly, a securities broker/dealer may earn a substantial portion of the income from the business in the form of dividends and gains on sales of dividend-bearing instruments. Interest income may also arise in the ordinary course of a trade or business with respect to installment sales and interest charges on accounts receivable. This means that portfolio income may not be reduced by PALs or passive activity credits. For example, any portfolio income earned by a trust described in section 501(a) that is UBTI (such as unrelated debt-financed income) may not be offset by PALs from an unrelated trade or business.

Section 469(k) provides that the passive activity limitations must be applied separately to items from each publicly traded partnership (PTP). A PTP is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent). PALs from a PTP may generally be used only to offset income or gain from passive activities of the same PTP. This means that a partner in a PTP may not use PALs and passive activity credits from a PTP to offset income from other sources, including passive activity income from another PTP. Such PALs and passive activity credits aren't allowed for the tax year.

Generally, PALs are subject to other limitations (for example, basis and at-risk limitations) before they are subject to the PAL limitations. For example, the at-risk rules under section 465 generally prohibit trusts and corporations that are affected tax-exempt organizations from claiming losses from activities in excess of the taxpayer's amount at risk in the activity.

An affected tax-exempt organization may need to attach Form 6198 and either Form 8582 or Form 8810. For more information on these rules, see Pub. 925, Passive Activity and At-Risk Rules.

How to report income received from a payment card and third-party network transaction. *An organization that receives a Form 1099-K reporting a "gross amount" received from payment card and third-party network transactions in the tax year should report these amounts in the same manner as if the payments weren't reported on a Form 1099-K. There isn't any one specific line on which to report an amount from Form 1099-K; the correct line should be determined based on the nature of the payments. Some payments received may constitute unrelated business* *income; see the instructions below to determine the appropriate line. For instance, if some of the payments are sales income from an unrelated business, then those payments would be reported on Part I, line 1a. Retain Form 1099-K with your other records.*

Specific Instructions—Schedule A (Form 990-T)

Items A Through E

Item A. Enter the same name as entered in the heading area of Form 990-T.

Item B. Enter the same EIN as entered in item D of Form 990-T.

Item C. On each Schedule A, enter the business activity code that best describes the organization's unrelated trade or business reported on that Schedule A. Modernized e-File requires a 6-digit numerical entry for item C. Unless you are using a 6-digit non-NAICS business activity code, you should enter the 2 digits of the NAICS code in the first two positions and then enter 4 zeros to complete the entry. For example, if the 2-digit business activity code 45 (for retail trade) best describes your unrelated trade or business, enter “450000” in item C. See *Business Activity Codes*, later, for more information about business activity codes.

Part I. Unrelated Trade or Business Income

Gross Receipts or Sales

Line 1a. Enter the gross receipts from an unrelated trade or business regularly conducted that involves the sale of goods or performance of services.

TIP *A section 501(c)(7) social club would report its restaurant and bar receipts from nonmembers on Schedule A, Part I, line 1, but would report its investment* *income on Schedule A, Part I, line 9, and on Schedule A, Part VII.*

Advance payments. In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For rules that allow a limited deferral of advance payments beyond the current tax year, see section 451(c). Also, see Regulations sections 1.451-8(c), (d), and (e). For applicability dates, see Regulations section 1.451-8(h). For information on adopting or changing to a permissible method for reporting advance payments for services and certain goods by an accrual method corporation, see the Instructions for Form 3115. Also, see Rev. Proc. 2021-34.

Installment sales. Generally, the installment method cannot be used for dealer dispositions of property. A “dealer disposition” is (a) any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan, or (b) any disposition of real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

These restrictions on using the installment method don't apply to dispositions of property used or produced in a farming business or sales of time-shares and residential lots for which the organization elects to pay interest under section 453(l)(3).

For sales of time-shares and residential lots reported under the installment method, the organization's income tax is increased by the interest payable under section 453(l)(3).

Enter on Schedule A, Part I, line 1a and line 3, the gross profit on collections from installment sales for any of the following.

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.

- Certain dispositions of time-shares and residential lots reported under the installment method.

Attach Form 6252 to show information about each installment sale.

Nonaccrual experience method. Accrual method organizations aren't required to accrue certain amounts to be received from the performance of services that, on the basis of their experience, won't be collected, if:

- The services are in the field of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The organization's average annual gross receipts for the 3 prior tax years doesn’t exceed $29 million.

This provision doesn’t apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. See Regulations section

1.448-3. Organizations that qualify to use the nonaccrual experience method should attach a statement showing total gross receipts, amounts not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on Schedule A, Part I, line 1a.

Gain or loss on disposition of certain brownfield property.

Gain or loss from the qualifying sale, exchange, or other disposition of a qualifying brownfield property (as defined in section 512(b)(19)(C)), which was acquired by the organization after 2004, is excluded from unrelated business taxable income and is excepted from the debt-financed rules for such property. See sections 512(b)(19) and 514(b)(1)(E).

Capital Gain Net Income

Line 4a. Generally, organizations required to file Form 990-T (except organizations described in sections 501(c)(7), (9), and (17)) aren't taxed on the net gains from the sale, exchange, or other disposition of property. However, net capital gains on debt-financed property, capital gains on cutting timber, and ordinary gains on sections 1245, 1250, 1252, 1254, and 1255 property are taxed. See Form 4797, Sales of Business Property, and its instructions for additional information.

Also, any capital gain or loss passed through from an S corporation or any gain or loss on the disposition of S corporation stock by a qualified tax-exempt organization (see *S Corporations,* later) is taxed as a capital gain or loss and reported on Part I, line 4.

Capital gains and losses should be reported by a trust on Schedule D (Form 1041), Capital Gains and Losses, and by a corporation on Schedule D (Form 1120), Capital Gains and Losses (and Form 8949, Sale and Other Dispositions of Capital

Assets). Schedule D of Form 1041 or Form 1120 (and Form 8949, if applicable) must be attached to Form 990-T.

If you deferred a capital gain into a QOF, you must attach Schedule D, Form 8949, and Form 8997 to your Form 990-T. You will need to annually file Form 8997 until you dispose of the investment. See the Instructions for Form 8997.

An organization that transfers securities it owns for the contractual obligation of the borrower to return identical securities recognizes no gain or loss on that exchange or on the subsequent receipt of identical securities in satisfaction of the contractual obligation. To qualify for this treatment, the organization must lend the securities under an agreement that requires:

1. The return of identical securities;
2. The payment of amounts equivalent to the interest, dividends, and other

distributions that the owner of the securities would normally receive; and

3. The risk of loss or opportunity for gain not be lessened.

See sections 512(a)(5) and 1058(b) for details.

Debt-financed property disposition. The amount of gain or loss to be reported on the sale, exchange, or other disposition of debt-financed property is the same percentage as the highest acquisition indebtedness for the property for the 12-month period before the date of disposition is to the average adjusted basis of the property. The percentage may not be more than 100%. See the instructions for Schedule A, Part V, line 5, to determine adjusted basis and average adjusted basis.

If debt-financed property is depreciable or depletable property, the provisions of sections 1245, 1250, 1252, 1254, and 1255 must be considered first.

Example. On January 1, 2022, an exempt educational corporation, using $288,000 of borrowed funds, purchased an office building for $608,000. The only adjustment to basis was $29,902 for depreciation (straight line method under MACRS over the 39-year recovery period for nonresidential real property). The corporation (section 501(c)(3) organization) sold the building on December 31, 2023, for $640,000. At the date of sale, the adjusted basis of the building was $578,098 ($608,000 − $29,902) and the indebtedness remained at $288,000. The adjusted basis of the property on the first day of the year of disposition was $593,037. The average adjusted basis is $585,568 (($593,037 + $578,098) ÷ 2). The debt/basis percentage is 49% ($288,000 ÷ $585,568).

The taxable gain is $30,332 (49% × ($640,000 − $578,098)). This is a long-term capital gain. A corporation should enter the gain on Schedule D (Form 1120), Part II, line

8. A trust should enter the gain on Schedule D (Form 1041), Part II, line 8, if applicable. In either scenario (a corporation or a trust), the educational organization must attach a statement to Form 990-T, in addition to the Schedule D, showing how the gain was figured along the lines described in this example, if the details weren't provided with the Schedule D.

Disposition of property received from taxable subsidiary and used in unrelated business. A taxable 80%-owned subsidiary corporation of one or more tax-exempt entities is generally subject to tax on a distribution in liquidation of its assets to its exempt parent (or parents). See section 337. The assets are treated as if sold at FMV.

"Tax-exempt entities" for this purpose include organizations described in sections 501(a), 529, 529A, and 115; charitable remainder annuity trusts or unitrusts; U.S. (including states) and foreign governments; Indian tribal governments and certain corporations; international organizations; and similar non-taxable organizations.

A taxable corporation that transfers substantially all of its assets to a tax-exempt entity in a transaction that otherwise qualifies for nonrecognition treatment must recognize gain on the transaction as if it sold the assets at FMV. However, such a transfer isn't taxable if it qualifies as a like-kind exchange under section 1031 or an involuntary conversion under section 1033. In such a case, the built-in appreciation is preserved in the replacement property received in the transaction. A “taxable corporation” is any corporation that isn't a tax-exempt entity as defined above, including an S corporation.

A corporation that changes status from taxable to tax-exempt is generally treated as if it transferred all of its assets to a tax-exempt entity immediately before the change in status (thus subjecting it to the tax on a deemed sale for FMV). This rule doesn't apply where the taxable corporation becomes exempt within 3 years of formation (within 7 years of formation for section 501(c)(7) organizations), or had previously been exempt and within several years (generally a period of 3 years) regains exemption, unless the principal purpose of the transactions is to avoid the tax on the change in status.

In the transactions described above, the taxable event is deferred for property that the tax-exempt entity immediately uses in an unrelated business. If the tax-exempt parent later disposes of the property, then any gain (not in excess of the amount not recognized) is included in the parent's UBTI. If there is partial use of the assets in unrelated business, then there is partial recognition of gain or loss with respect to the assets not so used. Property is treated as disposed if the tax-exempt entity no longer uses it in an unrelated business.

Losses on the transfer of assets to a tax-exempt entity are disallowed if part of a plan having a principal purpose of recognizing losses.

Net Gain or (Loss)

Line 4b. Show gains and losses on other than capital assets on Form 4797. Enter on this line the net gain or (loss) from Form 4797, Part II, line 17.

An exempt organization using Form 4797 to report ordinary gain on sections 1245, 1250, 1252, 1254, and 1255 property will include only depreciation, amortization, or depletion allowed or allowable in figuring UBTI or taxable income of the organization (or a predecessor organization) for a period when it was not exempt.

Capital Loss Deduction for Trusts

Line 4c. If a trust has a net capital loss, it is subject to the limitations of Schedule D (Form

1041). Enter on this line the loss figured on Schedule D (Form 1041).

Income or (Loss) From a Partnership or an S Corporation

Line 5. See Regulations section 1.512(a)-6 for rules permitting the aggregation of income (and directly connected deductions) of certain partnership interests.

Also, for trusts and certain corporations, there are limitations on income and losses (including from a partnership or an S corporation) under section 469 (the PAL and credit limitation rules) and section 465 (at-risk limitations). For more information on these rules, see the discussion of the application of the passive activity loss and at-risk limitations to affected tax-exempt organizations in the introductory instructions under *Part I. Unrelated Trade or Business Income,* earlier.

Partnerships

If the organization is a partner in a partnership conducting an unrelated trade or business, enter the organization's share (whether or not distributed) of the partnership's income or loss from the unrelated trade or business. The organization is required to notify the partnership of its tax-exempt status. Figure the gross income and deductions of the partnership in the same way you figure unrelated trade or business income the organization earns directly.

Attach a statement to this return showing the organization's share of the partnership's gross income from the unrelated trade or business, and its share of the partnership deductions directly connected with the unrelated gross income.

S Corporations

Qualified tax-exempt organizations can be shareholders in an S corporation without the

S corporation losing its status as an S corporation. Qualified tax-exempt organizations that hold stock in an S corporation treat their stock interest as an interest in an unrelated trade or business. All items of income, loss, or deduction that the organization receives as a shareholder of the S corporation are taken into account in Schedule A, Part I, line 5, in figuring UBTI and not reported on another line of Schedule A (Form 990-T) that otherwise would apply, except capital gains and losses, which are reported on Schedule A, Part I, line 4. Report on Schedule A, Part I, line 4, any gain or loss on the disposition of S corporation stock.

Qualified tax-exempts. A qualified tax-exempt is an organization that is described in section 401(a) (qualified stock bonus, pension, and profit-sharing plans) or 501(c)(3) and exempt from tax under section 501(a).

Exception. Employee stock ownership plans (ESOPs) don't follow these S corporation rules if the S corporation stock is an employer security, as defined in section 409(l).

Attach a statement to this return showing the qualified tax-exempt's share of all items of income, loss, or deduction. Combine the income, loss, and deductions (except for the capital gains and losses) on the statement. If you hold stock in more than one S corporation, total the combined amounts. Show capital gains and losses separately and include them on Schedule A, Part I, line 4a.

Rent Income

Line 6. Enter the amount computed on Part IV, line 3, on Part I, line 6, column (A). Enter the amount computed on Part IV, line 5, on Part I, line 6, column (B).

Unrelated Debt-Financed Income

Line 7. Enter the amount computed on Part V, line 8, on Part I, line 7, column (A). Enter the amount computed on Part V, line 10, on Part I, line 7, column (B).

Interest, Annuities, Royalties, and Rents From a Controlled Organization

Line 8. Enter the sum of columns 5 and 10 from Part VI on Part I, line 8, column (A). Enter the sum of columns 6 and 11 from Part VI on Part I, line 8, column (B).

Investment Income of a Section 501(c)(7), (9), or (17) Organization

Line 9. Enter the sum of amounts from Part VII, column 2, on Part I, line 9, column (A). Enter the sum of amounts in Part VII, column 5, on Part I, line 9, column (B).

Exploited Exempt Activity Income, Other Than Advertising Income

Line 10. Enter the amount computed on Part VIII, line 2, on Part I, line 10, column (A). Enter the amount computed on Part VIII, line 3, on Part I, line 10, column (B).

Advertising Income

Line 11. Enter the amount computed on Part IX, line 2, on Part I, line 11, column (A). Enter the amount computed on Part IX, line 3, on Part I, line 11, column (B).

Other Income

Line 12. Enter on Part I, line 12, any item of unrelated business income from a particular trade or business that isn't reportable elsewhere on the return. Attach a statement describing the sources of the other income and their amounts. Such amounts may include:

- Recoveries of bad debts deducted in earlier years under the specific charge-off method;
- The amount from Form 6478, Biofuel Producer Credit (if applicable);

- The amount from Form 8864, Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit (if applicable); and
- Proceeds received from employer-owned life insurance contracts issued after August 17, 2006 (complete and attach Form 8925); and
- The amount of payroll tax credit taken by an employer on its 2023 employment tax returns (Forms 941, 943, and 944) for qualified paid sick and qualified paid family leave under the FFCRA and the ARP (both the nonrefundable and refundable portions). These amounts must be included in gross income for the tax year that includes the last day of the calendar quarter with respect to which the credit is allowed.

Note. A credit is available only if the leave was taken sometime after March 31, 2020 and before October 1, 2021, and only after the qualified leave wages were paid, which might, under certain circumstances, not occur until a quarter after September 30, 2021, including quarters during 2023.

Organizations described in section 501(c)(19). Enter the net income from an insurance business that was not properly set aside. These organizations may set aside income from payments received for life, sickness, accident, or health insurance for members of the organization or their dependents.

1. To provide for the payment of insurance benefits.
2. For a purpose specified in section 170(c)(4) (religious, charitable, scientific, literary, educational, etc.).
3. For administrative costs directly connected with benefits described in (1) and (2) above.

Amounts set aside and used for purposes other than those in (1), (2), or (3) above must be included in UBTI for the tax year if they were previously excluded from taxable income.

Any amount spent for a purpose described in section 170(c) (4) is first considered paid from funds earned by the organization from insurance activities if the income isn't used for the insurance activities.

Expenditures for lobbying aren't considered section 170(c)(4) expenses.

Income from property financed with qualified 501(c)(3) bonds. If any part of the property is used in a trade or business of any person other than a section 501(c)(3) organization or a governmental unit, and such use isn't consistent with the requirement for qualified 501(c)(3) bonds under section 145, the section 501(c)(3) organization is considered to have received unrelated business income in the amount of the greater of the actual rental income or the fair rental value of the property for the period it is used.

No deduction is allowed for interest on the private activity bond. Report the greater of the actual rent or the fair rental value on Schedule A, Part I, line 12. Report allowable deductions on Schedule A, Part II. See sections 150(b)(3) and (c).

PFIC shareholders. If the organization is a direct or indirect shareholder of a PFIC within the meaning of section 1297, it may have income tax consequences under section 1291 upon the disposition of the PFIC stock or on the receipt of an excess distribution from the PFIC, described in section 1291(a). The organization may have current income under section 1293 if the PFIC is a QEF with respect to the organization. The organization may also have current income under section 1296 if it makes a section 1296 mark-to-market election with respect to the PFIC stock.

Include on Schedule A, Part I, line 12, the portion of an excess distribution (or gain treated as an excess distribution), section

1293 inclusion, or section 1296 inclusion that is taxable as UBTI. See Form 8621.

See the instructions for Form 990-T, Part II, line 4, for reporting the deferred tax amount that may be owed by the organization with respect to an excess distribution (or gain treated as an excess distribution).

Line 13. Total Unrelated Trade or Business Income

Use the amount from Schedule A, Part I, line 13, column (C), in the computation of UBTI in Part II.

Part II. Deductions Not Taken Elsewhere

If the aggregate sum of the amounts on all Schedules A (Form 990-T), Part I, line 13, column (A), is $10,000 or less, you don't have to complete Schedule A, Part II, lines 1 through 14. However, you must complete the remainder of Schedule A, Part II and include the larger of each total from Schedule A, Part II, line 18, or zero, in the computation of the amount reported on Part I, line 1, of Form 990-T.

Note. Only expenses directly connected with the unrelated trade or business income reported on the Schedule A for that particular unrelated trade or business may be deducted on that Schedule A (see *Directly connected expenses* in Appendix A). Don't separately include in Schedule A, Part II, any expenses that are reported in Schedule A, Parts III through IX, other than excess exempt expenses entered on Schedule A, Part II, line 12, and excess readership costs entered on Schedule A, Part II, line 13. For example, officers' compensation allocable to advertising income is reported on Schedule A, Part IX, only and shouldn’t be included on Schedule A, Part X, or Schedule A, Part II, line 1.

Limitations on Deductions

The following items discuss certain areas in which the deduction may be limited.

Activities Lacking a Profit Motive

In some instances, it is necessary to report income whether or not it comes from a trade or business (including interest, annuities, royalties, and rents from controlled organizations, and income of a section 501(c)(7), (9), or (17) organization other than exempt function income). If income is attributable to an activity lacking a profit motive, then a net loss from the activity can’t be claimed on Form 990-T. Therefore, in Part I, column (B), and Part II, the total of deductions for expenses directly connected with income from an activity lacking a profit motive is limited to the amount of that income. Generally, an activity lacking a profit motive is one that isn't conducted for the purpose of producing a profit or one that has consistently produced losses when both direct and indirect expenses are taken into account.

Deductions Related to Property Leased to Tax-Exempt Entities

For property leased to a governmental or other tax-exempt entity, or in the case of property acquired after March 12, 2004, that is treated as tax-exempt-use property other than by reason of a lease, the organization may not claim deductions related to the property when they exceed the organization's income from the lease payments. Amounts disallowed may be carried over to the next year and treated as a deduction concerning the property. See section 470.

Transactions Between Related Taxpayers

Generally, an accrual basis taxpayer may deduct business expenses and interest owed to a related party only in the year the payment is included in the income of the related party. See sections 163(e)(3) and 267 for limitations on deductions for unpaid interest and expenses.

Preference Items

Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment.

Section 263A Uniform Capitalization Rules

These rules require organizations to capitalize or include as inventory cost certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.

- Real property or personal property held in inventory (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property produced by the organization for use in its trade or business or in an activity engaged in for profit.

Tangible personal property produced by an organization includes a film, sound recording, videotape, book, or similar property.

Indirect expenses. Organizations subject to the section 263A uniform capitalization rules are required to capitalize direct costs and an allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale or are incurred by reason of the performance of production or resale activities.

For inventory, some of the indirect expenses that must be capitalized are:

- Administration expenses;
- Taxes;
- Depreciation;
- Insurance;
- Compensation paid to officers attributable to services;
- Rework labor; and
- Contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Regulations section 1.263A-1(e)(3) specifies other indirect costs that relate to production or resale activities that must be capitalized and those that may be currently deductible.

Interest expense. Interest expense paid or incurred during the production period of designated property must be capitalized and is governed by special rules. See Regulations section 1.263A-8 through 1.263A-15.

When are section 263A capitalized costs deductible? The costs required to be capitalized under section 263A aren't deductible until the property (to which the costs relate) is sold, used, or otherwise disposed of by the organization.

Exceptions. Section 263A doesn’t apply to:

- Personal property acquired for resale if the organization's average annual gross receipts for the 3 prior tax years were $10 million or less;
- Timber;
- Most property produced under long-term contract;
- Certain property produced in a farming business;
- Research and experimental costs under section 174;

- Geological and geophysical costs amortized under section 167(h);
- Intangible drilling costs for oil, gas, and geothermal property;
- Mining exploration and development costs; and
- Inventory of an organization that accounts for inventories in the same manner as materials and supplies that aren't incidental. See *Schedule A, Part III, Cost of Goods Sold*, later.

See Regulations sections 1.263A-1 through 1.263A-3.

Travel, Meals, and Entertainment

Subject to the limitations and restrictions discussed below, an organization can deduct ordinary and necessary travel, meals, and non-entertainment expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues, and facilities used in connection with these activities can’t be deducted. In addition, no deduction is generally allowed for qualified transportation fringe benefits. Special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463, Travel, Gift, and Car Expenses.

Qualified transportation fringes (QTFs). Generally, no deduction is allowed under section 274(a)(4) for QTFs provided by employers to their employees. QTFs are defined in section 132(f)(1) and include:

- Transportation in a commuter highway vehicle between the employee's residence and place of employment,
- Any transit pass, and
- Qualified parking.

See section 274, Pub. 15-B, and Pub. 535 for details.

Travel. The organization can’t deduct travel expenses of any individual accompanying an organization's officer or employee, including a spouse or dependent of the officer or employee, unless:

- That individual is an employee of the organization, and
- Their travel is for a bona fide business purpose and would otherwise be deductible by that individual.

Meals. Generally, the organization can deduct only 50% of the amount otherwise allowable for non-entertainment-related meal expenses paid or incurred in an unrelated trade or business. Meals not separately stated from entertainment are generally not deductible. In addition (subject to exceptions under section 274(k)(2)):

- Meals mustn’t be lavish or extravagant, and

- An employee of the organization must be present at the meal.

Membership dues. The organization can deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain or provide entertainment facilities for members or their guests. In addition, organizations can’t deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

Entertainment facilities. The organization can’t deduct an expense paid or incurred for use of a facility (such as a yacht or hunting lodge) for an activity usually considered entertainment, amusement, or recreation.

Amounts treated as compensation. The organization may generally be able to deduct otherwise non-deductible travel, meals, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or Form 1099-NEC for an independent contractor and if the total amount of such compensation isn't unreasonable.

Reducing Certain Expenses for Which Credits Are Allowable

If the organization claims certain credits, it may need to reduce the otherwise allowable deductions for expenses used to figure the credit. This applies to credits such as the following.

- Disabled access credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Credit for employer-provided childcare facilities and services.
- Orphan drug credit.
- Credit for small employer pension plan startup costs.
- Employer credit for paid family and medical leave.

If the organization has any of these credits, figure each current-year credit before figuring the deduction for expenses on which the credit is based.

Business Startup and Organizational Costs

For business startup and organizational costs paid or incurred after September 8, 2008, an organization can deduct up to $5,000 of such costs in the year it begins business (unless the organization elects to capitalize the full amount of such costs). The $5,000 deduction is reduced (but not below zero) by the amount the total costs exceed $50,000. If the total costs are $55,000 or more, the deduction is reduced to zero. Any costs not deducted must be amortized, as explained below.

Note. For startup and organizational costs paid or incurred after September 8, 2008, the organization isn't required to attach a statement or specifically identify the amount deducted for the election under sections 195(b) and 248(a) to be effective. It is a deemed election. Whether an organization deducts a portion of its startup and organizational costs under Regulations sections 1.195-1 and 1.248-1 or elects to amortize the full amount of such costs, its election is irrevocable. For startup and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, an organization must generally attach the statement required by Regulations sections 1.195-1(b) and 1.248-1(c) to make the election to deduct a portion of such costs (as explained above). This election is irrevocable. However, an organization can apply the provisions of these regulations to costs paid or incurred after October 22, 2004.

Amortization. Any costs not deducted under the above rules must be amortized ratably over the 180-month period, beginning with the month the organization begins business. See the Instructions for Form 4562, Depreciation and Amortization, for details. If the association elected to amortize business startup and organizational costs paid or incurred before October 23, 2004, over a period of 60 months or more, it must continue to amortize those costs over the elected amortization period. Report the deductible amount of these costs and any amortization on Schedule A, Part II, line 14. For amortization that began during the tax year, complete and attach Form 4562.

Repairs and Maintenance

Line 3. Enter the cost of incidental repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that don't add to the value or appreciably prolong the life of the property.

Bad Debts

Line 4. Enter the total receivables from an unrelated trade or business that were previously included in taxable income and that became worthless in whole or in part during the tax year.

Interest

Line 5. Attach a separate statement listing the interest being claimed on this line.

Interest allocation. If the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity), an interest allocation must be made. See Temporary Regulations section 1.163-8T for the interest allocation rules.

Tax-exempt interest. Don't include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest income is totally exempt from income tax. For exceptions, see section 265(b).

Prepaid interest. Generally, a cash basis taxpayer can’t deduct prepaid interest allocable to years following the current tax year, for example, during the tax year a cash basis taxpayer prepaid interest on a loan. The taxpayer can deduct only that part of the prepaid interest that was for the use of the loaned funds during the tax year, not for the use of the loaned funds during the subsequent years.

Straddle interest. Generally, the interest and carrying charges on straddles can’t be deducted and must be capitalized. See section 263(g).

Original issue discount. See section 163(e)(5) for special rules for the disqualified portion of original issue discount on a high-yield discount obligation.

Interest on certain underpayments of tax. Don't deduct interest paid or incurred on any portion of an underpayment of tax that is attributable to an understatement arising from an undisclosed listed transaction or an undisclosed reportable avoidance transaction (other than a listed transaction) entered into in tax years beginning after October 22, 2004.

Interest allocable to the production of designated property. Don't deduct interest on debt allocable to the production of designated property. Interest that is allocable to such property produced by an organization for its own use or for sale must be capitalized. An organization must also capitalize any interest on debt allocable to an asset used to produce the earlier property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

Interest on below-market loans. See section 7872 for special rules regarding the deductibility of foregone interest on certain below-market-rate loans.

Limitation on deduction of business interest. Business interest expense is limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Business interest expense includes any interest paid or accrued on indebtedness properly allocable to an unrelated trade or business. A taxpayer, other than a tax shelter, that meets the gross receipts test isn't required to limit business interest expense under section 163(j). A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts that are taken into account in determining its UBTI of $29 million or less for the 3 prior tax years. Gross receipts include the aggregate gross receipts from all persons treated as a single employer such as a controlled group of corporations, commonly controlled partnerships or proprietorships, and affiliated service groups. If the taxpayer fails to meet the gross receipts test, Form 8990 is generally required.

Taxes and Licenses

Line 6. Enter taxes and license fees paid or accrued during the year, but don't include the following taxes.

- Federal income taxes.
- Foreign or U.S. territory income taxes if a foreign tax credit is claimed.
- Taxes not imposed on your organization.

- Taxes, including state or local sales taxes, paid or incurred in connection with an acquisition or disposition of property. These taxes must be treated as part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

See section 164(d) for apportionment of taxes on real property between the buyer and seller.

Do not reduce the corporation's deduction for social security and Medicare taxes by the amount claimed on its employment tax and refundable portions of the FFCRA and ARP credits for *qualified sick and family leave wages. Instead, report this amount as income on line 10.*

Depreciation

Line 7. Besides depreciation, include on line 7 the part of the cost, under section 179, that the organization elected to expense for certain tangible property placed in service during the tax year or carried over from the prior tax year. See Form 4562 and its instructions.

Depletion

Line 9. See sections 613 and 613A for percentage depletion rates for natural deposits. Attach Form T (Timber), Forest Activities Schedules, if a deduction is taken for depletion of timber.

Contributions to Deferred Compensation Plans

Line 10. Employers who maintain pension, profit-sharing, or other funded deferred compensation plans are generally required to file Form 5500. This requirement applies whether or not the plan is qualified under the Code and whether or not a deduction is claimed for the current tax year. Section 6652(e) imposes a penalty for late filing of these forms. In addition, there is a penalty for overstating the pension plan deduction. See section 6662(f).

Employee Benefit Programs

Line 11. Enter the amount of contributions to employee benefit programs (such as insurance, health, and welfare programs) that aren't an incidental part of a deferred compensation plan included on Schedule A, Part II, line 10.

Excess Exempt Expenses

Line 12. Enter the amount computed on Part VIII, line 7 (if applicable), on Part II, line 12.

Excess Readership Costs

Line 13. Enter the amount computed on Part IX, line 8a (if applicable), on Part II, line 13.

Other Deductions

Line 14. Enter on this line the deduction taken for amortization (see Form 4562) as well as other authorized deductions for which no space is provided on the return. Attach a statement listing the deductions claimed on this line. On each Schedule A, deduct only items directly connected with the unrelated trade or business for which income is reported on that Schedule A.

Extraterritorial income exclusion. Complete Form 8873 and include the deduction from line 52 in other deductions reported on Part II, line 14.

Don't deduct fines or penalties paid to a government for violating any law. The exclusion was repealed generally for transactions after 2004, with some exceptions. See Form 8873 and its instructions.

Net Operating Loss (NOL) Deduction Arising in Tax Years Beginning On or After January 1, 2018

Line 17. The NOL deduction is the NOL carryover and carrybacks that can be deducted in the tax year with regard to each separate trade or business. To be deductible, an NOL must have been incurred in an unrelated trade or business activity. See section 172(a).

Tax Cuts and Jobs Act amendments to section 172. Section 13302 of the Tax Cuts and Jobs Act amended section 172 for tax years ending after 2017 to eliminate NOL carrybacks except for certain farming losses and NOLs of insurance companies other than life insurance companies. See section 172(b), as amended by the Tax Cuts and Jobs Act. Also see Pub. 225, Farmer’s Tax Guide; Pub. 536, Net Operating Losses for Individuals, Estates, and Trusts; and Pub. 542, Corporations, for additional information. The Tax Cuts and Jobs Act also amended section 172(a)(2) to limit the allowable NOL deduction to 80% of taxable income (calculated as described in section 172(a)(2)).

Instructions for line 17. Enter on Schedule A, Part II, line 17, the NOL carryover from other tax years attributable to that trade or business, but don't enter more than the amount shown on Schedule A, Part II, line 16. An organization that claims the deduction with respect to any NOL carried through tax years for which the organization was not required to file Form 990-T must show the amount of the deduction and how it was computed, but the organization need not file a Form 990-T in order to preserve an NOL carryover. See Regulations section 1.512(a)-6(h)(3) for treatment of suspended NOLs resulting from the termination, sale, exchange, or other disposition of a separate unrelated trade or business. After offsetting any gain resulting from the termination, sale, exchange, or disposition of a separate unrelated trade or business, any NOL remaining is suspended. However, the suspended NOLs may be used if that previous separate unrelated trade or business is later resumed or if a new unrelated trade or business that is accurately identified using the same NAICS 2-digit code as the previous separate unrelated trade or business is commenced or acquired in a future tax year.

The amount of an NOL carryover is determined under section 172. See Regulations section 1.512(b)-1(e) and, for organizations with more than one unrelated trade or business, Regulations section

1.512(a)-6(h). Attach a statement showing the computation of the NOL deduction.

Unrelated Business Taxable Income

Line 18. Use the greater of the amount computed on line 18 or zero in the computation of UBTI on Part I, line 1, of Form 990-T. A net loss calculated on any Schedule A, Part II, line 18, can’t be used to offset gain on any other Schedule A. Accordingly, a net loss on a Schedule A should be treated as zero to calculate the amount reported on Part I, line 1, of Form 990-T

Part III. Cost of Goods Sold

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1.

However, if the organization is a qualifying taxpayer or a qualifying small business taxpayer, it may adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that aren't incidental (unless its business is a tax shelter (as defined in section 448(d) (3)).

A qualifying taxpayer is a taxpayer that, for each prior tax year ending after December 16, 1998, has average annual gross receipts of $1 million or less for the 3-tax-year period ending with that prior tax year.

A qualifying small business taxpayer is a taxpayer (a) that has average annual gross receipts of $29 million or less for the 3-tax-year period ending with that prior tax year, and (b) whose principal business activity isn't an ineligible activity.

Under this accounting method, inventory cost for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year the organization paid for the raw materials or merchandise, if it is also using the cash method). For additional guidance on this method of accounting for inventoriable items, see Pub. 538 and the Instructions for Form 3115.

Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the organization can deduct for the tax year is figured on Schedule A, Part III, line 8.

All filers not using the cash method of accounting should see

Section 263A Uniform Capitalization Rules under *Limitations on Deductions*, earlier, before completing Schedule A. The instructions for lines 1, 4, 5, and 7, later, apply to Part III earlier, before completing Schedule A.

Inventory valuation methods. Inventories can be valued at:

1. Cost, as described in Regulations section 1.471-3,
2. Lower of cost or market, as described in Regulations section 1.471-4, or
3. Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

However, if the organization is using the cash method of accounting, it is required to use cost.

A small producer is an organization whose average annual gross receipts are $1 million or less. Small producers that account for inventories in the same manner as materials and supplies that aren't incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

The average cost (rolling average) method of valuing inventories generally doesn't conform to the requirement of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148.

Organizations that use erroneous valuation methods must change to a method permitted for federal income tax purposes. File Form 3115 to make this change.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are subnormal because of damage, imperfections, shop wear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at the bona fide selling price, minus direct cost of disposition (but not less than scrap value). Bona fide selling price means actual offering of goods during a period ending not later than 30 days after inventory date.

If this is the first year the Last-in First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach Form 970, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970.

If the organization changed or extended its inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of this write-up as other income (Part I, line 12) proportionately over a 3-year period that begins in the tax year the LIFO election was made (section 472(d)).

Line 1. If the organization is changing its method of accounting to no longer account for inventories, it must refigure last year's closing inventory using the new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the organization's section 481(a) adjustment (explained earlier).

Line 4. An entry is required on this line only for organizations that have elected a simplified method of accounting.

For organizations that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that are now required to be capitalized under section 263A but that weren’t capitalized under the organization's method of accounting immediately prior to the effective date of section 263A. For details, see Regulations section 1.263A-2(b).

For organizations that have elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories.

- Off-site storage or warehousing.
- Purchasing.

- Handling, such as processing, assembling, repackaging, and transporting.
- General and administrative costs (mixed service costs).

For details, see Regulations section 1.263A-3(d).

Enter on Schedule A, Part III, line 4, the balance of section 263A costs paid or incurred during the tax year not included on Schedule A, Part III, lines 2 and 3.

Line 5. Enter on Schedule A, Part III, line 5, any costs paid or incurred during the tax year not entered on Schedule A, Part III, lines 2 through 4. Attach a statement describing the other costs.

Line 7. See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

If the organization accounts for inventories in the same manner as materials and supplies that aren't incidental, enter on Schedule A, Part III, line 7, the portion of its raw materials and merchandise purchased for resale that are included on Schedule A, Part III, line 6, and weren’t sold during the year.

Part IV. Rent Income

Section 501(c)(7), (9), and (17) organizations, enter gross rents on Schedule A, Part I, line 6, and applicable expenses on Schedule A, Part II, lines 1 through 14. All rents except those that are exempt function income must be included.

All organizations that have applicable rent income, other than section 501(c)(7), (9), and (17) organizations, should complete Schedule A, Part IV. For organizations other than section 501(c) (7), (9), and (17) organizations, only the following rents are taxable on Schedule A, Part I, line 6.

1. Rents from personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued under the lease, determined at the time the personal property is placed in service.

2. Rents from real and personal property if:

    a. More than 50% of the total rents received or accrued under the lease are for personal property, or

    b. The amount of the rent depends on the income or profits derived by any person from the property leased (except an amount based on a fixed percentage of receipts or sales).