



# Instructions for Form 990-T

## Exempt Organization Business Income Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

### Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping** . . . . .65 hr., 3 min.
- Learning about the law or the form** . . . . .22 hr., 26 min.
- Preparing the form** . . . . .37 hr., 31 min.
- Copying, assembling, and sending the form to the IRS** . . . . .3 hr., 45 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0687), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see **Where To File** on page 2.

### General Instructions

#### Changes To Note

- Final regulations under section 263A have been adopted. These regulations, which require the capitalization and inclusion in inventory of certain costs, generally are effective for tax years beginning after 1993, and supersede, in most cases, Temporary Regulations section 1.263A-1T. Changes in accounting methods may be necessary as a result of the issuance of the final regulations. These changes must be made under Rev. Proc. 94-49, 1994-30 I.R.B. 31. The principles of Temporary Regulations section 1.263A-1T(e) must be applied in revaluing inventories under the revenue procedure.

The Revenue Reconciliation Act of 1993 (the Act) made changes to the tax law, some of which are highlighted below.

- Generally, lobbying expenses paid or incurred after December 31, 1993, are no longer deductible. These expenses include amounts paid or incurred in connection with influencing Federal or state legislation

(but not local legislation), or amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. However, certain in-house expenditures that do not exceed \$2,000 are still deductible. Charitable contributions made after December 31, 1993, to an organization that conducts lobbying activities are not deductible if the lobbying activities relate to matters of direct financial interest to the donor's trade or business and a principal purpose of the contribution was to avoid Federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor.

- The deductible portion of business meals and entertainment expenses has been reduced from 80% to 50%. For details, see the instructions for limits on deductions on page 6.

- Generally, no deduction is allowed for any charitable contribution of \$250 or more made after 1993, unless the organization obtains a written acknowledgement from the charitable organization. See page 8 for more details.

#### Purpose of Form

In general, **Form 990-T**, Exempt Organization Business Income Tax Return, is used by tax-exempt organizations and by certain individual retirement arrangements (IRAs) to report their unrelated business income and to figure their income tax and proxy tax liability. In addition, the form is used by IRAs and other tax-exempt shareholders of a regulated investment company (RIC) to obtain a refund of income tax paid under section 852(b).

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#### Who Must File

Any domestic or foreign organization exempt under section 501(a) must file Form 990-T if it has gross income from an unrelated trade or business of \$1,000 or more. See Regulations section 1.6012-2(e). Gross income is gross receipts minus the cost of goods sold. (See Regulations section 1.61-3.)

Organizations liable for the proxy tax on lobbying and political expenditures must file Form 990-T. See the line 37 instructions for a discussion of the proxy tax. If your organization is only required to file Form 990-T because of the proxy tax, see **Which Parts of Form 990-T To Complete** on page 3.

Colleges and universities of states and other governmental units, as well as subsidiary corporations wholly owned by such colleges and universities, are also subject to the Form 990-T filing requirements. However, a section 501(c)(1) corporation that is an instrumentality of the United States and both organized and exempted from tax by an Act of Congress does not have to file.

Fiduciaries for IRAs described in section 408(a) that have \$1,000 or more of unrelated trade or business gross income must file Forms 990-T.

IRAs and other tax-exempt shareholders in a regulated investment company (RIC) filing Form 990-T only to obtain a refund of income tax paid on undistributed long-term capital gains should complete Form 990-T as explained in **Which Parts of Form**

**990-T To Complete**, items 1 and 3, on page 3.

## Definitions

### Unrelated Trade or Business Income.—

Unrelated **trade or business** (defined below) income is the gross income derived **(a)** from any trade or business that is regularly carried on, and **not substantially related to** (defined below), the organization's exempt purpose or function (aside from the organization's need for income or funds or the use it makes of the profits); or **(b)** generally, for section 501(c)(7), (9), or (17) organizations, from nonmembers with certain modifications (see section 512(a)(3)(A)), or **(c)** for a section 511(a)(2)(B) state college or university, from activities not substantially related to exercising or performing any purpose or function described in section 501(c)(3).

An unrelated trade or business does **not** include a trade or business:

1. In which substantially all the work is performed for the organization without compensation; or
2. That is carried on by a section 501(c)(3) or 511(a)(2)(B) organization mainly for the convenience of its members, students, patients, officers, or employees; or
3. That sells items of work-related equipment and clothes, and items normally sold through vending machines, food dispensing facilities or by snack bars, by a local association of employees described in section 501(c)(4), organized before May 27, 1969, if the sales are for the convenience of its members at their usual place of employment; or
4. That sells merchandise substantially all of which was received by the organization as gifts or contributions; or
5. That consists of qualified public entertainment activities regularly carried on by a section 501(c)(3), (4), or (5) organization as one of its substantial exempt purposes (see section 513(d)(2) for the meaning of qualified public entertainment activities); or
6. That consists of qualified convention or trade show activities regularly conducted by a section 501(c)(3), (4), (5), or (6) organization as one of its substantial exempt purposes (see section 513(d)(3) for the meaning of qualified convention and trade show activities); or
7. That furnishes one or more services described in section 501(e)(1)(A) by a hospital to one or more hospitals subject to conditions in section 513(e); or
8. That consists of qualified pole rentals (as defined in section 501(c)(12)(D)), by a mutual or cooperative telephone or electric company; or
9. That includes activities relating to the distribution of low-cost articles, each costing \$6.40 or less by an organization described in section 501 and contributions to which are deductible under section 170(c)(2) or (3) if the distribution is

incidental to the solicitation of charitable contributions; or

**10.** That includes the exchange or rental of donor or membership lists between organizations described in section 501 and contributions to which are deductible under section 170(c)(2) or (3); or

**11.** That consists of bingo games as defined in section 513(f). Generally, a bingo game is not included in any unrelated trade or business if:

- a. Wagers are placed, winners determined, and prizes distributed in the presence of all persons wagering in that game, and
- b. The game does not compete with bingo games conducted by for-profit businesses in the same jurisdiction, and
- c. The game does not violate state or local law; or

**12.** That consists of conducting any game of chance by a nonprofit organization in the state of North Dakota, and the conducting of the game does not violate any state or local law.

A **trade or business** is any activity carried on for the production of income from selling goods or performing services. An activity does not lose its identity as a trade or business merely because it is carried on within a larger group of similar activities which may or may not be related to the exempt purpose of the organization. If, however, an activity carried on for profit is an unrelated trade or business, no part of it can be excluded from this classification merely because it does not result in profit.

**Not substantially related to** means that the activity that produces the income does not contribute importantly to the exempt purposes of the organization, other than the need for funds, etc. Whether an activity contributes importantly depends in each case on the facts involved.

For details, get **Pub. 598**, Tax on Unrelated Business Income of Exempt Organizations.

**Directly Connected Expenses.**—To be deductible in computing unrelated business taxable income, expenses, depreciation, and similar items must qualify as deductions allowed by section 162, 167, or other relevant provisions of the Code, and must be **directly connected** with the carrying on of an unrelated trade or business activity.

To be directly connected with the carrying on of a trade or business activity, expenses, depreciation, and similar items must bear a proximate and primary relationship to the conduct of the activity. For example, where facilities and/or personnel are used both to carry on exempt activities and to conduct unrelated trade or business activities, expenses and similar items attributable to such facilities and/or personnel must be allocated between the two uses on a reasonable basis. The portion of any such item allocated to the unrelated trade or business activity must bear a proximate and primary relationship to that business activity.

## When To File

Generally, the organization must file Form 990-T by the 15th day of the 5th month after the end of the tax year. However, an employees' trust defined in section 401(a) and an IRA must file Form 990-T by the 15th day of the 4th month after the end of the tax year. If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. If the return is filed late, see the discussion of interest and penalties on page 3.

**Extension.**—Corporations may request an automatic 6-month extension of time to file Form 990-T by using **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return.

Trusts may request an extension of time to file by using **Form 2758**, Application for Extension of Time To File Certain Excise, Income, Information, and Other Returns. Trusts are not granted an automatic extension of time to file Form 990-T.

**Amended Return.**—To correct errors or change a previously filed return, write "Amended Return" at the top of the return. Generally, the amended return must be filed within 3 years after the date the original return was due or 3 years after the date the organization filed it, whichever is later.

## Where To File

If the principal office of the organization is located in	Use the following Internal Revenue Service Center address
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee	Atlanta, GA 39901
Arizona, Colorado, Kansas, New Mexico, Oklahoma, Texas, Utah, Wyoming	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	Holtsville, NY 00501
Illinois, Iowa, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wisconsin	Kansas City, MO 64999
Alaska, California, Hawaii, Idaho, Nevada, Oregon, Washington	Fresno, CA 93888
Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, any U.S. possession or foreign country	Philadelphia, PA 19255

**Estimated Taxes.**—Generally, an organization filing Form 990-T must make installment payments of estimated tax if its estimated tax (tax minus allowable credits) is expected to be \$500 or more. Both corporate and trust organizations use **Form 990-W**, Estimated Tax on Unrelated

Business Taxable Income for Tax-Exempt Organizations, to figure their estimated tax liability. Do not include the proxy tax when computing your estimated tax liability for 1995.

To compute estimated tax, trusts and corporations must take the alternative minimum tax into account. See Form 990-W for more information.

Generally, taxpayers whose total deposits of withheld income, social security, and Medicare taxes during calendar year 1993 exceeded \$78 million are required to deposit all depository taxes due after 1994 by electronic funds transfer (EFT). TAXLINK, an electronic remittance processing system, must be used to make deposits by EFT. Taxpayers who are not required to make deposits by EFT may voluntarily participate in TAXLINK. For more details on TAXLINK, see Rev. Proc. 94-48, 1994-29 I.R.B. 31. You may also call the toll-free TAXLINK HELPLINE at 1-800-829-5469.

## Interest and Penalties

Your organization may be subject to interest and penalty charges if it files a late return or fails to pay tax when due. Generally, the organization is not required to include the interest and penalty charges on Form 990-T because the IRS can figure the amount and bill the organization for it.

**Interest.**—Interest is charged on taxes not paid by the due date even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at the underpayment rate determined under section 6621(a)(2).

**Late Filing of Return.**—An organization that fails to file its return when due (including extensions of time for filing) is subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax unless it can show reasonable cause for the delay. Those filing late (after the due date, including extensions) must attach an explanation to the return. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or \$100.

**Late Payment of Tax.**—The penalty for late payment of taxes is usually ½ of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the amount due. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment.

**Estimated Tax Penalty.**—An organization that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, an organization is subject to this penalty if its tax liability is \$500 or more and it did not make estimated tax payments of at least the smaller of the tax shown on the return, or

100% of the prior year's tax. See section 6655 for details and exceptions.

**Form 2220, Underpayment of Estimated Tax by Corporations,** is used by corporations and trusts filing Form 990-T to see if the organization owes a penalty and to figure the amount of the penalty. Generally, the organization is not required to file this form because the IRS can figure the amount of any penalty and bill the organization for it. However, you must complete and attach Form 2220 even if the organization does not owe the penalty if any of the following apply:

- 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, be sure to check the box on line 46, page 2, Form 990-T, and enter the amount of any penalty on this line.

**Other Penalties.**—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

## Which Parts of Form 990-T To Complete

1. All filers must complete the applicable items in the heading area at the top of page 1 and the signature area on page 2.
2. Filers other than those identified in items 3 and 4 below complete the rest of Form 990-T as follows.

Complete Part I, column (A), lines 1 through 13, on page 1. If the amount on line 13, column (A), is \$10,000 or less, you may complete only line 13 of columns (B) and (C), lines 29 through 34 of Part II, and Parts III through V. Filers with \$10,000 or less on line 13, column (A), do not have to complete Schedules A through K (however, refer to applicable schedules when completing column (A) and in determining the deductible expenses to include on line 13 of column (B)). If the amount on line 13, column (A), Part I, is more than \$10,000, complete all lines and schedules that apply.

3. IRAs and other tax exempt shareholders in a regulated investment company (RIC) filing Form 990-T only to obtain a refund of income tax paid on undistributed long-term capital gains should:

- a. At the top of the return, write "Claim for Refund shown on Form 2439,"
- b. Complete the heading (using the name and employer identification number (EIN) of the exempt organization),
- c. Enter the credit on line 44e,
- d. Sign the return, and
- e. Attach **Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.**

If you are a trustee of more than one IRA invested in a RIC, you may be able to file a composite Form 990-T to claim a refund of tax under section 852(b) instead of filing a separate Form 990-T for each IRA. Enter the amount of the credit on line 44e. At the top of the form, write "Composite Return

per Notice 90-18." For specific requirements and other information, see Notice 90-18, 1990-1 C.B. 327.

4. Organizations liable for the proxy tax on lobbying and political expenditures that are required to file Form 990-T only because of the proxy tax should enter the proxy tax on line 37. Attach a schedule showing the computation. Then, complete Part IV.

## Consolidated Returns

The consolidated return provisions of section 1501 do not apply to exempt organizations, except for organizations having title holding companies. If a title holding corporation described in section 501(c)(2) pays any amount of its net income for a tax year to an organization exempt from tax under section 501(a) (or would except that the expenses of collecting its income exceeded that income), and the corporation and organization file a consolidated return as described below, then treat the title holding corporation as being organized and operated for the same purposes as the other exempt organization (in addition to the purposes described in section 501(c)(2)).

Two organizations exempt from tax under section 501(a), one a title holding company, and the other earning income from the first, will be includible corporations for purposes of section 1504(a). If the organizations meet the definition of an affiliated group, and the other relevant provisions of Chapter 6 of the Code, then these organizations may file a consolidated return. The parent organization must attach **Form 851, Affiliations Schedule**, to the consolidated return. For the first year a consolidated return is filed, the title holding company must attach **Form 1122, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return**. See Regulations section 1.1502-100 for more information on consolidated returns.

## Other Forms You May Need To File

**Form 720.**—Use **Form 720, Quarterly Federal Excise Tax Return**, to report environmental excise taxes, communications and air transportation taxes, fuel taxes, luxury tax on passenger vehicles, manufacturers taxes, ship passenger tax, and certain other excise taxes.

**Caution:** *The trust fund recovery penalty may apply if certain excise taxes that must be collected are not collected or are not paid to the IRS. The penalty is equal to the unpaid trust fund tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See the instructions for Form 720 for more details, including the definition of responsible person.*

**Information Returns.**—Organizations engaged in an unrelated trade or business may be required to file an information return on **Forms 1099-A, B, DIV, INT, MISC, OID, R, S, 1096, W-2, and W-3** to report abandonments, acquisitions through foreclosures, proceeds from broker and barter exchange transactions, dividends, interest, medical and health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, any distributions from profit-sharing, retirement plans, individual retirement arrangements, insurance contracts, proceeds from real estate transactions, and wages, tips, and other compensation.

**Form 1098.**—File **Form 1098**, Mortgage Interest Statement, if the organization in the course of its trade or business received from any individual \$600 or more of mortgage interest during any calendar year.

**Form 5498.**—Use **Form 5498**, Individual Retirement Arrangement Information, to report contributions (including rollover contributions) to an IRA and the value of an IRA or simplified employee pension account.

**Form 5713.**—File **Form 5713**, International Boycott Report, if the organization had operations in or related to “boycotting” countries.

**Form 6198.**—File **Form 6198**, At-Risk Limitations, if the organization has a loss from an at-risk activity carried on as a trade or business or for the production of income.

**Form 8275.**—Taxpayers and income tax return preparers should attach **Form 8275**, Disclosure Statement, to Form 990-T to disclose items or positions (except those contrary to a regulation—see **Form 8275-R** below) that are not otherwise adequately disclosed on the tax return. The disclosure is made to avoid parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.

**Form 8275-R.**—Use **Form 8275-R**, Regulation Disclosure Statement, to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.

**Form 8300.**—File **Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business, if the organization received more than \$10,000 in cash or foreign currency in one transaction or in a series of related transactions.

Cashier's checks, bank drafts, and money orders with face amounts of \$10,000 or less are considered cash under certain circumstances. For more information, see Form 8300 and Regulations section 1.60501-1(c).

**Form 8697.**—Use **Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded

under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

**Form 8842.**—For figuring estimated tax payments under the annualized income installment method, file **Form 8842**, Election To Use Different Annualization Periods for Corporate Estimated Tax, for each year the organization wants to elect one of the annualization periods in section 6655(e)(2)(C).

**Note:** *Form 8842 is used by tax-exempt trusts as well as corporations.*

## Accounting Methods

Taxable income must be computed using the method of accounting regularly used in keeping the organization's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Unless the law specifically permits otherwise, the organization may change the method of accounting used to report income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also get **Pub. 538**, Accounting Periods and Methods.

Generally, organizations are required to use the accrual method of accounting for their unrelated trade or business activities if their average annual gross receipts are more than \$5 million. See section 448(c). An organization changing to the accrual method because of this provision must complete Form 3115 and attach it to Form 990-T for the year of change. An organization must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Regulations sections 1.448-1(g) and 1.448-1(h) for more information. Include the amount reportable as income in 1994 under section 481(a) on line 12, page 1.

See section 460 for general rules on long-term contracts.

## Accounting Period

The return must be filed using the organization's established annual accounting period. If the organization has no established accounting period, file the return on the calendar-year basis.

To change an accounting period, some organizations may make a notation on a timely filed Form 990, 990-EZ, 990-PF, or 990-T. Others may be required to file **Form 1128**, Application To Adopt, Change, or Retain a Tax Year. For details on which procedure applies to your organization, see Rev. Proc. 85-58, 1985-2 C.B. 740, and the instructions for Form 1128.

If the organization changes its accounting period, file Form 990-T for the short period that begins with the first day after the end of the old tax year and ends

on the day before the first day of the new tax year. For the short period return, figure the tax by placing the organization's taxable income on an annual basis. For details, see Pub. 538 and section 443.

## Reporting Form 990-T Information on Other Returns

Organizations required to file an annual information return on **Form 990**, Return of Organization Exempt From Income Tax, **Form 990-EZ**, Short Form Return of Organization Exempt From Income Tax, **Form 990-PF**, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation, or any of the Form 5500 series returns (except certain Forms 5500-C/R and Form 5500-EZ) must include on that information return the unrelated business gross income and expenses (but not including the specific deduction claimed on line 33, page 1, or any expense carryovers from prior years) reported on Form 990-T for the same tax year.

## Rounding Off to Whole-Dollar Amounts

The organization may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

## Attachments

If you need more space on the form or schedules, attach separate sheets. On the attachment, write the corresponding form or schedule number or letter and follow the same format. **Show totals on the printed form.** Also include the organization's name and employer identification number (EIN). The separate sheets should be the same size as the printed form and should be attached after the printed form.

## Specific Instructions

**Period covered.**—File the 1994 return for calendar year 1994 or a fiscal year beginning in 1994. If the return is for a fiscal year, fill in the tax year information at the top of the form.

**Note:** *For an initial or final return or a change in accounting period, the 1994 Form 990-T may also be used as the return for a short period (less than 12 months) that begins and ends in 1995 if the 1995 Form 990-T is not available by the time the organization is required to file its return. However, the organization must show its 1995 tax year on the 1994 Form 990-T and incorporate any tax law changes that are effective for tax years beginning after December 31, 1994.*

**Name and Address.**—The name and address on Form 990-T should be the same as the name and address shown on the mailing label on Package 990 (or 990-PF). If any information on the label is incorrect or missing, cross out any errors, print the correct information and add any missing information.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street

address and the organization has a P.O. box, show the box number instead of the street address.

**Block A.—Form 8822, Change of Address,** can be filed to notify the IRS of a change of address that occurs after the return is filed.

**Block B.—**If the return is filed for an IRA trust, check the box marked "408(e)."

**Block C.—**Enter the total of the end-of-year asset values from the organization's books of account.

**Block D.—**An employees' trust described in section 401(a) and exempt under section 501(a) should enter its own trust identification number in this block. An IRA trust enters its own employer identification number (EIN) in this block. An EIN is obtained by filing **Form SS-4, Application for Employer Identification Number.**

**Block E.—**Enter the applicable unrelated business activity code(s) from the list on the last page of these instructions.

**Block F.—**If the organization is covered by a group exemption, enter the group exemption number.

**Block G.—**Check the box that describes your organization.

Section 408(a) trusts (IRAs) with \$1,000 or more of gross income from an unrelated trade or business should check the "Section 408(a) trust" box. Section 408(e) provides that income of an IRA is exempt from tax with certain exceptions. For example, the IRA is subject to tax under section 511 on income from an unrelated trade or business.

If you check "501(c) Corporation," leave line 36 blank. If you check "501(c) Trust," "Section 401(a) trust," or "Section 408(a) trust," leave lines 35a, b, and c blank.

**Block H.—**Describe the primary unrelated business activity of your organization based on unrelated income. Attach a schedule if more space is needed.

**Block I.—**Check the "Yes" box if your organization is a corporation and either 1 or 2 below applies:

1. The corporation is a subsidiary in an affiliated group (defined in section 1504) but is not filing a consolidated return for the tax year with that group.

2. The corporation is a subsidiary in a parent-subsidiary controlled group (defined in section 1563).

**Note:** If the corporation is an "excluded member" of a controlled group (see section 1563(b)(2)), it is still considered a member of a controlled group for this purpose.

## Part I—Unrelated Trade or Business Income

**Note:** Complete column (A), lines 1 through 13. If the amount on line 13 is \$10,000 or less, you may complete only line 13 of columns (B) and (C). These filers do not have to complete Schedules A through K (however, refer to applicable schedules when completing column (A)). If the amount on line 13, column (A), is more than \$10,000, complete all lines and schedules that apply.

**Line 1a—Gross receipts or sales.—** Enter the gross income from any unrelated trade or business regularly carried on that involves the sale of goods or performance of services.

**Note:** A section 501(c)(7) social club would report its restaurant and bar receipts from nonmembers on line 1, but would report its investment income on Schedule G.

For reporting advance payments, see Regulations section 1.451-5. To report income from long-term contracts, see section 460.

Generally, the installment method cannot be used for dealer dispositions of property. See section 453(l) for details and exceptions. For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, enter on line 1a the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing the following for the current year and the 3 preceding years: (1) gross sales, (2) cost of goods sold, (3) gross profits, (4) percentage of gross profits to gross sales, (5) amount collected, and (6) gross profit on amount collected. For sales of timeshares and residential lots reported under the installment method, the organization's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 43.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to pay the amount on time. Organizations that fall under this provision should attach a schedule showing total gross receipts, amounts not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on line 1a. For more information and guidelines on this "nonaccrual experience method," see Temporary Regulations section 1.448-2T.

**Line 4a—Capital gain net income.—** Generally, organizations required to file Form 990-T (except organizations described in sections 501(c)(7), (9), and (17)) are not 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.

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).

An organization that transfers securities it owns for the contractual obligation of the

borrower to return identical securities recognizes no gain or loss. 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 section 512(a)(5) for details.

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 E, column 5, to determine adjusted basis and average adjusted basis.

**Example.** On January 1, 1993, an exempt educational corporation purchased an office building for \$608,000 using \$288,000 of borrowed funds. The only adjustment to basis was \$36,990 for depreciation (straight line method under MACRS over the 31.5-year recovery period for nonresidential real property). The corporation sold the building on December 31, 1994, for \$640,000. At the date of sale, the adjusted basis of the building was \$571,010 (\$608,000 less \$36,990) and the indebtedness remained at \$288,000. The adjusted basis of the property on the first day of the year of disposition was \$589,505. The average adjusted basis would be \$580,258  $(\$589,505 + \$571,010 \div 2)$ . The debt/basis percentage would be 50%  $(\$288,000 \div \$580,258)$ .

The taxable gain is \$34,495  $(50\% \times (\$640,000 - \$571,010))$ . This is a long-term capital gain. A corporation should enter the gain on line 6, Part II, Schedule D (Form 1120); a trust should use line 7, Part II, Schedule D (Form 1041). Both should attach a statement to the return showing how the gain was figured.

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

**Line 4b—Net gain or (loss).—**Show gains and losses on other than capital assets on Form 4797. Enter on this line the net gain or (loss) from Part II, line 20, Form 4797.

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 unrelated business taxable income or taxable income of the organization (or a predecessor organization) for a period when it was not exempt.

**Line 4c—Capital loss deduction for trusts.—**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).

**Line 5—Income or (loss) from partnerships.**—If the organization is a partner in a partnership carrying on 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.

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. See Forms 6198 and 8582 (for trusts) or Form 8810 (for corporations), and sections 465 and 469 for limitations on losses for certain activities.

For partnership years beginning before January 1, 1994, an organization's entire share of gross income from a publicly traded partnership interest acquired after December 17, 1987, is unrelated trade or business income from the partnership, regardless of the type of income. The organization may deduct its share of the partnership's deductions in computing unrelated business taxable income. **Note:** *Effective for partnership years beginning on or after January 1, 1994, income from publicly traded partnerships is treated the same as income from other partnerships.*

**Line 12—Other income.**—Enter on line 12 any item of unrelated business income that is not reportable elsewhere on the return. Include recoveries of bad debts deducted in earlier years under the specific charge-off method. Attach a separate schedule of any items of other income to your return.

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

1. To provide for the payment of insurance benefits; or
2. For a purpose specified in section 170(c)(4) (religious, charitable, scientific, literary, educational, etc.); or
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 unrelated business taxable income 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 is not used for the insurance activities.

Expenditures for lobbying are not 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, your 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 line 12. Report allowable deductions in Part II. See section 150(b)(3) for more information.

• **Passive foreign investment company (PFIC) shareholders.**—If your organization is a direct or indirect shareholder of a PFIC within the meaning of section 1296, it may have income tax consequences under section 1291 on the disposition of the PFIC stock or on receipt of an excess distribution from the PFIC, described in section 1291(a). Your organization may have current income under section 1293 if the PFIC is a qualified electing fund (QEF) with respect to the organization.

Include on line 12 the portion of an excess distribution or section 1293 inclusion that is taxable as unrelated business taxable income. See **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, for more information on reporting excess distributions and current income inclusions.

See the instructions for Part III, lines 35c and 36 for reporting the deferred tax amount that may be owed by your organization with respect to an excess distribution.

## Part II—Deductions Not Taken Elsewhere

**Note:** *If the amount on Part I, line 13, column (A), is \$10,000 or less, do not complete lines 14 through 28 of Part II. Instead, complete only lines 29 through 34 of Part II. Complete Parts III through V and the signature area on page 2. Part II, lines 14 through 34, must be completed by all organizations with unrelated trade or business gross income (Part I, line 13, column (A)) over \$10,000.*

Only expenses directly connected with unrelated trade or business income (except contributions) may be deducted on these lines (see **Directly Connected Expenses** on page 2). Contributions may be deducted, whether or not directly connected. Do not separately include in Part II any expenses that are reported in Schedules A through J, other than excess exempt expenses entered on line 26 and excess readership costs entered on line 27. For example, officers' compensation allocable to advertising income is reported on Schedule J only, and should not be included on Schedule K or line 14 of Part II.

## Limits on Deductions

The following items discuss certain areas in which the amount of the deduction may to some extent be limited:

1. **Activities lacking a profit motive.** If income is attributable to an activity lacking a profit motive, a loss from the activity cannot 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 is not 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.

2. **Transactions between related taxpayers.** See section 267 for limit on deductions for unpaid expenses and interest.

3. **Tax 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.

4. **Section 263A uniform capitalization rules.** These rules require organizations to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by an organization includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Organizations subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more details, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by an organization for use in its unrelated trade or business.

Section 263A does not apply to personal property acquired for resale if the organization's annual average gross receipts are \$10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property that is produced for use by the organization if substantial construction had occurred before March 1, 1986.

In the case of inventory, some of the indirect costs 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.

The costs that must be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the organization.

Current deductions may still be claimed for reasonable research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Regulations section 1.263A-1(e)(3) specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more details, see Regulations sections 1.263A-1 through 1.263A-3.

5. Meals, entertainment, and travel expenses. The amount deductible for meals and entertainment expenses is generally limited to 50% of the amount otherwise allowable. Also, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal, and an employee of the organization must be present at the meal. See section 274 for more information on the 50% rule and for guidance on the deduction limitations applicable to travel expenses.

**Note:** *The following expenses are no longer deductible: (1) Amounts paid or incurred for club dues (including dues for airline and hotel clubs), and (2) Travel expenses for a spouse, dependent, or other individual accompanying an officer or employee of the organization on business travel, unless that spouse, dependent, or other individual is an employee of the organization and the travel is for a bona fide business purpose and would otherwise be deductible by that person.*

6. Certain expenses for which credits are allowable. For each of the credits listed below, the organization must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

- a. The credit for increasing research activities.
- b. The enhanced oil recovery credit.
- c. The disabled access credit, and
- d. The employer credit for social security and Medicare taxes paid on certain employee tips.

If the organization has any of these credits, be sure to figure each current year credit before figuring the deductions for expenses on which the credit is based.

**Line 16—Repairs and maintenance.**—Enter the cost of incidental repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that do not add to the value or appreciably prolong the life of the property.

**Line 17—Bad debts.**—Enter the total receivables from unrelated business activities that were previously included in taxable income and that became worthless in whole or in part during the tax year.

**Line 18—Interest.**—Attach a separate schedule listing the interest being claimed on this line.

If the proceeds of a loan were used for more than one purpose (e.g., 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.

Do not 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).

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1994 prepaid interest allocable to any period after 1994 can deduct only the amount allocable to 1994.

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

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

Certain interest paid or accrued by the organization (directly or indirectly) to a related person may be limited if no tax is imposed on such interest. See section 163(j) for more details.

Do not deduct interest on debt allocable to the production of qualified 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 above property. See section 263A and Notice 88-99 for definitions and more information.

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

**Line 19—Taxes and licenses.**—Enter taxes and license fees paid or accrued during the year. Do not include Federal income taxes, excise taxes imposed by Chapter 41, 42, or 43, foreign or U.S. possession income taxes if a foreign or possession income tax credit is claimed (however, see the Instructions for Form 5735 for special rules for possession income taxes), or 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 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.

If a corporation is liable for environmental tax under section 59A, see **Form 4626**, Alternative Minimum Tax—Corporations, for the computation of the environmental tax deduction.

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

**Line 20—Charitable contributions.**—Enter contributions or gifts actually paid to another organization within the tax year to or for the use of charitable and governmental organizations described in section 170(c). Also, enter any unused contributions carried over from earlier years. The deduction for contributions will be allowed whether or not directly connected with the carrying on of a trade or business.

If a contribution is in property other than cash and the deduction claimed for the property exceeds \$500, attach a schedule describing the kind of property contributed and the method used in determining its fair market value. If the total claimed deduction for all property contributed was more than \$5,000, attach **Form 8283**, Noncash Charitable Contributions, to the return.

If the organization made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

For a special rule for certain contributions of ordinary income and capital gain property, see section 170(e).

If a charitable contribution deduction is taken for property sold to a charitable organization, the adjusted basis for determining gain from the sale is an amount that is in the same ratio to the adjusted basis as the amount realized is to the fair market value of the property.

**Corporations.**—The total amount claimed may not be more than 10% of unrelated business taxable income figured without regard to the deduction for charitable contributions.

Charitable contributions over the 10% limitation may not be deducted for the tax year, but may be carried over to the next 5 tax years.

In figuring the charitable contributions deduction, if the corporation has an NOL carryover to the tax year, the 10% limit is applied using the taxable income after taking into account any deduction for the NOL.

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified. See section 172(b). To the extent charitable contributions are used to reduce taxable income for this purpose and increase a net operating loss carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach a declaration to the return, signed by an officer, stating that the

resolution authorizing the contributions was adopted by the board of directors during the tax year. Also, attach a copy of the resolution.

**Trusts.**—In general:

1. For contributions to organizations described in section 170(b)(1)(A), the amount claimed may not be more than 50% of the unrelated business taxable income figured without this deduction; and

2. For contributions to other organizations, the amount claimed may not be more than the smaller of:

a. 30% of unrelated business taxable income figured without this deduction; or

b. The amount by which 50% of the unrelated business taxable income is more than the contributions allowed in 1 above.

**Note:** *Contributions not allowable in whole or in part because of the limitations may not be deducted as a business expense, but may be carried over to the next 5 tax years.*

**Substantiation requirements.**—Generally, no deduction is allowed for any contribution of \$250 or more, unless the organization obtains a written acknowledgment from the charitable organization by the due date (including extensions) of Form 990-T, or if earlier, the date Form 990-T is filed. However, see section 170(f)(8) and the related temporary regulations for exceptions to this rule. **Do not** attach the acknowledgment to Form 990-T, but keep it with the organization's records.

The acknowledgment must show (a) the amount of cash contributed, (b) a description of any property contributed, (c) whether the charitable organization provided any goods or services to the donor, and (d) a description and a good-faith estimate of the value of any goods and services provided to the donor in exchange for the donation, unless the goods and services have insubstantial value or unless a statement is included that these goods and services consist solely of intangible religious benefits.

Generally, if your organization makes a charitable contribution of more than \$75 and receives something in return (a quid pro quo contribution), the amount of the contribution deductible for Federal income tax purposes is limited to the amount by which the contribution exceeds the value of the goods or services received. The charitable organization that solicits or receives the contribution must so inform you of this by written statement and must provide your organization with a good-faith estimate of the value of goods or services given in return for the contribution.

An organization must keep records, required by the regulations under section 170, for all its charitable contributions.

**Contributions to organizations conducting lobbying activities.**—

Charitable contributions made to an organization conducting lobbying activities are not deductible if:

• The lobbying activities relate to matters of direct financial interest to the donor's trade or business, and

• The principal purpose of the contribution was to avoid Federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor. See section 170(f)(9) for more details.

**Line 21—Depreciation.**—Besides depreciation, include on line 21 the part of the cost, under section 179, that the organization elected to expense for certain tangible property placed in service during tax year 1994 or carried over from 1993. See **Form 4562**, Depreciation and Amortization, and its instructions.

**Line 23—Depletion.**—See sections 613 and 613A for percentage depletion rates for natural deposits. Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction is taken for depletion of timber.

**Line 24—Contributions to deferred compensation plans.**—Employers who maintain pension, profit-sharing, or other funded deferred compensation plans are generally required to file one of the 5500 series forms specified in the following paragraph. This requirement applies whether or not the plan is qualified under the Internal Revenue 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).

**Form 5500.**—Complete this form for each plan with 100 or more participants.

**Form 5500-C/R.**—Complete this form for each plan with fewer than 100 participants.

**Line 25—Employee benefit programs.**—Enter the amount of contributions to employee benefit programs (e.g., insurance, health and welfare programs) that are not an incidental part of a deferred compensation plan included on line 24.

**Line 28—Other deductions.**—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 separate schedule listing the deductions claimed on this line. Deduct only items directly connected with the unrelated trade or business for which income is reported in Part I.

Do not deduct fines or penalties paid to a government for violating any law.

**Line 31—Net operating loss deduction.**—The "net operating loss deduction" is the total of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a).

To be deductible, a net operating loss must have been incurred in an unrelated trade or business activity. The amount of a net operating loss carryback or carryover is determined under section 172. See Regulations section 1.512(b)-1(e).

**Line 33—Specific deduction.**—A specific deduction of \$1,000 is allowed except for

computing the net operating loss and the net operating loss deduction under section 172.

Only one specific deduction may be taken, regardless of the number of unrelated businesses conducted. However, a diocese, province of a religious order, or convention or association of churches is allowed one specific deduction for each parish, individual church, district, or other local unit that regularly conducts an unrelated trade or business. This applies only to those parishes, districts, or other local units that are not separate legal entities, but are components of a larger entity (diocese, province, convention, or association). Each specific deduction will be the smaller of \$1,000 or the gross income from any unrelated trade or business the local unit conducts. If you claim a total specific deduction larger than \$1,000, attach a schedule showing how you figured the amount.

The diocese, province of a religious order, or convention or association of churches must file a return reporting the gross income and deductions of all its units that are not separate legal entities. These local units cannot file separate returns because they are not separately incorporated. Local units that are separately incorporated must file their own returns and cannot be included with any other entity except for a title holding company. See the instructions under **Consolidated Returns** on page 3.

For details on the specific deduction, see section 512(b)(12) and the related regulations.

## Part III—Tax Computation

**Lines 35a and 35b.—Corporate members of a controlled group,** as defined in section 1563, are entitled to one \$50,000, one \$25,000, and one \$9,925,000 taxable income bracket amount (in that order) on line 35a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

**Equal Apportionment Plan.**—If no apportionment plan is adopted, members of a controlled group must divide the amount in each taxable income bracket equally among themselves. For example, Controlled Group AB consists of Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, Corporation A and Corporation B are each entitled to \$25,000 (one-half of \$50,000) in the \$50,000 taxable income bracket on line 35a(1), \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 35a(2), and \$4,962,500 (one-half of \$9,925,000) in the \$9,925,000 taxable income bracket on line 35a(3).



**Unequal Apportionment Plan.—**

Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

**Additional 5% tax and additional 3% tax.—**Members of a controlled group are treated as one corporation for purposes of figuring the applicability of the additional 5% tax that must be paid by corporations with taxable income in excess of \$100,000 and the additional 3% tax that must be paid by corporations with taxable income in excess of \$15 million. If either additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member must enter its share of the additional 5% tax on line 35b(1) and its share of the 3% tax on line 35b(2) and attach to its tax return a schedule that shows the taxable income of the entire group, as well as how its share of the additional tax was figured.

**Lines 35c and 36**

**Deferred tax amount under section 1291.—**If your organization has an excess distribution from a passive foreign investment company (PFIC) that is taxable as unrelated business taxable income, the organization may owe the deferred tax amount defined in section 1291(c)(1). The portion of the deferred tax amount that is the aggregate increases in taxes (described in section 1291(c)(2)) must be included in the amount entered on line 35c or 36. Write to the left of line 35c or 36, "Sec. 1291" and the amount. Do not include on line 35c or 36 the portion of the deferred tax amount that is the aggregate amount of interest determined under section 1291(c)(3). Instead, write "Sec. 1291 interest" and the amount in the bottom right margin of page 2, Form 990-T. See **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, Part III.

**Line 35c—Corporations.—**A corporation must compute the tax on its taxable income using the Tax Rate Schedule for Corporations on this page (members of a controlled group should see the instructions on page 8 for lines 35a and b). If the organization is a trust, skip to line 36 to figure the tax.

**Line 36—Trusts.—**Trusts exempt under section 501(a), which otherwise would be subject to subchapter J (estates, trusts, etc.), are taxed at trust rates. This rule also applies to employees' trusts that qualify under section 401(a). Trusts figure the tax on the amount on line 34 using the Tax Rate Schedule for Trusts on this page or, if the trust is eligible for the maximum 28% rate on net capital gains, complete Schedule D (Form 1041) and enter the tax

from Part VI of Schedule D (Form 1041) on page 2, line 36. Check the "Schedule D" box on line 36 and attach Schedule D (Form 1041) to Form 990-T.

**Tax Rate Schedule for Corporations**  
(Section 11 of the Internal Revenue Code)

If the amount on line 34, page 1 is: Enter on line 35c, page 2:

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

**Tax Rate Schedule for Trusts**  
(Section 1(e) of the Internal Revenue Code)

If the amount on line 34, page 1 is: Enter on line 36, page 2:

Over—	But not over—	Tax is:	Of the amount over—
\$0	\$1,500	15%	\$0
1,500	3,600	<b>\$225 + 28%</b>	1,500
3,600	5,500	<b>813 + 31%</b>	3,600
5,500	7,500	<b>1,402 + 36%</b>	5,500
7,500	- - - -	<b>2,122 + 39.6%</b>	7,500

**Worksheet for Members of a Controlled Group**  
(keep for your records)

**Each member of a controlled group must compute the tax using the computation below:**

- Enter unrelated business taxable income (line 34, page 1, Form 990-T) . . . . . \_\_\_\_\_
- Enter line 1 or the corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
- Subtract line 2 from line 1 . . . . . \_\_\_\_\_
- Enter line 3 or the corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
- Subtract line 4 from line 3 . . . . . \_\_\_\_\_
- Enter line 5 or the corporation's share of the \$9,925,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
- Subtract line 6 from line 5 . . . . . \_\_\_\_\_
- Enter 15% of line 2 . . . . . \_\_\_\_\_
- Enter 25% of line 4 . . . . . \_\_\_\_\_
- Enter 34% of line 6 . . . . . \_\_\_\_\_
- Enter 35% of line 7 . . . . . \_\_\_\_\_
- If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the **smaller** of:  
(a) 5% of the excess over \$100,000, or  
(b) \$11,750. (See instructions for additional 5% and additional 3% tax above.) . . . . . \_\_\_\_\_
- If the taxable income of the controlled group exceeds \$15 million, enter this member's share of the **smaller** of:  
(a) 3% of the excess over \$15 million, or  
(b) \$100,000 (See instructions for additional 5% and additional 3% tax above.) . . . . . \_\_\_\_\_
- Add lines 8 through 13. Enter here and on line 35c, page 2, Form 990-T . . . . . \_\_\_\_\_

**Line 37**

**Proxy tax.—**To pay the section 6033(e)(2) proxy tax on nondeductible lobbying and political expenditures, enter the proxy tax on line 37 and attach a schedule showing the computation.

Exempt organizations, **except section 501(c)(3) and certain other organizations**, must include certain information regarding lobbying expenditures on Form 990. In addition, organizations may have to provide notices to members regarding their share of dues to which the expenditures are allocable. See Form 990 instructions for exceptions and other details.

If the organization elects not to provide the notices described above, it must pay the proxy tax described in section 6033(e)(2). If the organization does not include the entire amount of allocable dues in the notices, it may have to pay the proxy tax. **This tax is not applicable to section 501(c)(3) organizations.** Figure the proxy tax by multiplying the aggregate amount not included in the notices described above by 35%. No deductions are allowed.

**Part IV—Tax and Payments**

**Line 38a—Foreign tax credit**

• **Corporations.—**See **Form 1118**, Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.

• **Trusts.—**See **Form 1116**, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual), for rules on how the trust computes the foreign tax credit.

Complete the form that applies to the organization and attach the form to its Form 990-T. Enter the credit on this line.

**Line 38b—Other credits**

• **Possessions tax credit.—**See **Form 5712**, Election To Be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit (section 936). Compute the credit on **Form 5735**, Possessions Corporation Tax Credit Allowed Under Section 936.

• **Nonconventional source fuel credit.—**A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit. Also, see **Form 8801**, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, or **Form 8827**, Credit for Prior Year Minimum Tax—Corporations, if any of the 1993 nonconventional source fuel credit is disallowed solely because of the tentative minimum tax limitation. See section 53(d).

• **Qualified electric vehicle credit.—**Include on line 38b any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not

eligible for the deduction for clean-fuel vehicles under section 179A.

### Line 38c—General business credit

**Form 3800, General Business Credit.**—Complete Form 3800 if the organization has:

1. More than one of the credits listed below; OR
2. A credit carryforward or carryback (including one from an ESOP credit); OR
3. A passive activity credit (other than the low-income housing credit).

Enter the amount of the general business credit on line 38c and check the Form 3800 box on that line. Attach Form 3800 and the other applicable credit forms to Form 990-T.

Form 3800 is not required if the organization has only one of the general business credits (and items 2 and 3 above do not apply). Instead, attach the applicable credit form to the return, check the Form box, and specify the form number.

### For Form 990-T filers, the general business credit includes:

- **Investment credit.**—The organization may claim the investment credit for property placed in service that is qualified rehabilitation, energy, qualified timber, or transition property. See **Form 3468, Investment Credit**, for definitions and other details.
- **Alcohol fuel credit.**—The organization may be able to take a credit for alcohol used as fuel. Use **Form 6478, Credit for Alcohol Used As Fuel**, to figure the credit and attach it to Form 990-T.
- **Credit for increasing research activities.**—See **Form 6765, Credit for Increasing Research Activities**, and section 41.
- **Low-Income Housing Credit.**—See section 42 and **Form 8586, Low-Income Housing Credit**.
- **Disabled access credit.**—An organization may be able to take a credit for certain expenses paid or incurred to assist disabled individuals. Use **Form 8826, Disabled Access Credit**, to figure the credit.
- **Enhanced oil recovery credit.**—An organization may claim a credit of 15% of qualified enhanced oil recovery costs. Use **Form 8830, Enhanced Oil Recovery Credit**, to figure the credit.
- **Renewable electricity production credit.**—An organization may be able to take a credit for electricity produced by the organization using closed-loop biomass or wind and sold to an unrelated person. Use **Form 8835, Renewable Electricity Production Credit**, to figure the credit.
- **Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.**—Use **Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips**, to figure the credit.

### • Credit for Contributions to Selected Community Development Corporations.

—An organization may claim a credit for contributions to certain community development corporations. Use **Form 8847, Credit for Contributions to Selected Community Development Corporations**, to figure the credit.

**Line 38d—Credit for prior year minimum tax.**—Use Form 8801 to figure the minimum tax credit and any carryforward of that credit for trusts. For corporations, use Form 8827.

### Line 41—Recapture Taxes

**Recapture of investment credit.**—If property is disposed of, or ceases to be qualified property, before the end of the recapture period or the useful life applicable to the property, there may be a recapture of the credit. See **Form 4255, Recapture of Investment Credit**.

**Recapture of low-income housing credit.**—If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611, Recapture of Low-Income Housing Credit**, and section 42(j).

**Recapture of qualified electric vehicle (QEV) credit.**—The organization must recapture part of the QEV credit it claimed in a prior year if within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. Get **Pub. 535, Business Expenses**, for details on how to figure the recapture. Include the amount of the recapture in the total for line 41. On the dotted line next to the entry space, write “QEV” and the amount.

**Line 42a—Alternative minimum tax.**—Organizations liable for tax on unrelated business taxable income may be liable for alternative minimum tax on certain adjustments and tax preference items. Trusts attach **Schedule H, Alternative Minimum Tax**, of Form 1041 and enter any tax from Schedule H on this line. Corporations attach Form 4626 and enter any tax from Form 4626 on this line.

Reduce alternative minimum tax by any amount on line 34 of Schedule A, Form 3800. Write in the margin to the left of line 42a, “Sec. 38(c)(3)” and the amount.

**Line 42b—Environmental tax.**—Corporations should attach Form 4626 and enter any environmental tax on this line. Corporations may be liable for the environmental tax even if there is no alternative minimum tax due.

**Line 42c.**—Enter the total of lines 42a and 42b.

### Line 43—Total tax

**Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots.**—If the organization elected to pay interest on the amount of tax attributable to payments received on installment obligations from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the

amount entered on line 43, Form 990-T. Write on the dotted line to the left of line 43, “Sec. 453(l)(3) interest” and the amount. Attach a schedule showing the computation.

**Interest on tax deferred under the installment method for certain nondealer installment obligations.**—If an obligation from the disposition of property to which section 453A applies is outstanding at the close of the year, the organization must include the interest due under section 453A(c) in the amount entered on line 43, Form 990-T. Write on the dotted line to the left of line 43, “Sec. 453A(c) interest” and the amount. Attach a schedule showing the computation.

**Interest under the look-back method for completed long-term contracts.**—Include the interest due under the look-back method of section 460(b)(2) on line 43. Write on the dotted line to the left of the entry space, “From Form 8697” and the amount of interest due.

**Line 44b—Estimated tax.**—Enter the total estimated tax payments made for the tax year.

If an organization is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the organization’s share of the estimated tax payment in the total amount entered here. In the entry space to the left of line 44b, write “T” and the amount attributable to it.

**Line 44d—Foreign organizations.**—Enter the tax withheld on unrelated business taxable income from U.S. sources that is not effectively connected with the conduct of a trade or business within the United States. Attach **Form 1042-S, Foreign Person’s U.S. Source Income Subject to Withholding**, or other form which verifies the tax withheld reported on line 44d.

**Line 44e—Other credits and payments.**—Enter on this line the following:

**Credit from regulated investment company (RIC).**—Attach **Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains**. If you are filing a composite Form 990-T, see Notice 90-18.

**Credit for Federal tax paid on fuels.**—Attach **Form 4136, Credit for Federal Tax Paid on Fuels**.

**Credit for ozone-depleting chemicals.**—Include on line 44e any credit the organization is claiming under section 4682(g)(4) for taxes paid on chemicals used as propellants in metered-dose inhalers.

**Refunds of erroneous backup withholding.**—Recipients of dividend or interest payments must generally certify their correct tax identification number to the bank or other payer on Form W-9. If the payer does not get this information, it must withhold part of the payments as “backup withholding.” If your organization was subject to erroneous backup withholding because the payer did not realize you were an exempt organization and not subject to this withholding, you can claim credit for the amount withheld by including it on line 44e and writing

“ERRONEOUS BACKUP WITHHOLDING” to the left of the entry space.

If your only reason for filing a Form 990-T is to claim a refund of this withholding, complete only the year, name, address, and employer identification number at the top of the form. Enter zero on lines 13 (column (A)), 34, and 43 and complete line 44e as described on page 10. Also, complete lines 45 and 48. Fill in the signature and Paid Preparer’s areas, and attach a copy of the Form 1099 statement(s) showing the withholding.

**Line 47—Tax due.**—All organizations must pay the tax due in full when the return is filed, but no later than the 15th day of the 5th month after the end of the tax year.

Domestic organizations and foreign organizations with an office or place of business in the United States must deposit income tax payments and estimated tax payments with a Federal Tax Deposit Coupon (**Form 8109**). Make these tax deposits with either a financial institution qualified as a depository for Federal taxes or the Federal Reserve bank or branch servicing the geographic area where the organization is located. Do not submit deposits directly to an IRS office; otherwise, the organization may be subject to a failure to deposit penalty. Records of deposits will be sent to the IRS for crediting to the organization’s account. See the instructions in the coupon book (Form 8109) for details.

All foreign organizations that do not have an office or place of business in the United States may pay the tax by check or money order (in U.S. dollars) payable to the Internal Revenue Service. The tax due must be paid in full when the return is filed.

## Part V—Statements Regarding Certain Activities and Other Information

Be sure to complete all items in Part V.

**Question 1.**—Check the “Yes” box if either **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** above.

If “Yes” is checked to question 1, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, 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). The organization can obtain Form TD F 90-22.1 from the IRS Forms Distribution Center. If the organization is required to file this form, file it by June 30, 1995, with the Department of the Treasury at the address shown on the form. Do not file it with the IRS or attach it to Form 990-T.

**Question 2.**—Check the “Yes” box if the organization was ever a grantor of, or transferor to, a foreign trust that existed during this tax year.

**Item 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 regulated investment company.

## Signature

**Corporations.**—The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or by any other corporate officer (such as 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.

**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 does not 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’s Use Only area of the return.

The paid preparer **must** complete the required preparer information and:

- Sign the return, by hand, in the space provided for the preparer’s signature. (Signature stamps or labels are not acceptable.)
- Give a copy of the return to the organization.

## Schedule A—Cost of Goods Sold

**Note:** *If an organization is using Schedule A to figure cost of goods sold where inventories are not an income-determining factor, it should enter a zero on lines 1 and 6 of the schedule.*

See the instructions below before completing Schedule A.

### Inventory valuation methods.—

Inventories can be valued at **(1)** cost, **(2)** cost or market value (whichever is lower), or **(3)** any other method that is approved by the IRS, and that conforms to

the provisions of the applicable regulations cited below.

Organizations using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Such a change should be made by filing **Form 3115**, Application for Change in Accounting Method. For more information, see Regulations section 1.446-1(e)(3) and Rev. Proc. 92-20, 1992-1 C.B. 685.

Inventory may be valued below cost when the merchandise is **(1)** unsalable at normal prices, or **(2)** 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 a current bona fide selling price, minus direct cost of disposition (but not less than scrap value), if such a price can be established. See Regulations section 1.471-2(c) for more requirements.

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” its opening inventory to cost in the year of election, report the effect of this write up as income (line 12, page 1) proportionately over a 3-year period that begins in the tax year the election was made (section 472(d)).

**Section 263A uniform capitalization rules.**—The uniform capitalization rules of section 263A are discussed in general in the instructions for **Limits on deductions** on page 6. See those instructions before proceeding.

**Schedule A, line 4a.**—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 were not capitalized under the organization’s method of accounting immediately prior to the effective date of section 263A. For more 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, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). For more details, see Regulations section 1.263A-3(d).

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

**Schedule A, line 4b.**—Enter on line 4b any costs paid or incurred during the tax year not entered on lines 2 through 4a.

**Schedule A, line 6.**—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.

## Schedule C—Rent Income

Sections 501(c)(7), (9), and (17) organizations, enter gross rents on Part I, line 6, and applicable expenses on Part II, lines 14 through 28. All rents except those that are exempt function income must be included.

All organizations that have applicable rent income, other than sections 501(c)(7), (9), and (17) organizations, should complete Schedule C on page 3 of the return. For organizations other than sections 501(c)(7), (9), and (17) organizations, only the following rents are taxable in 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).

A redetermination of the percentage of rent for personal property is required when either:

1. There is an increase of 100% or more by the placing of additional or substitute personal property in service; or
2. There is a modification of the lease that changes the rent charged.

Rents from both real and personal property not taxable in Part I, line 6 may be taxable on line 8 if the income is from a controlled organization or on line 7 if the property is debt-financed. Taxability of the rents must be considered in that order; that is, rents not taxed on line 6 may be taxed on line 8 and rents not taxed on line 6 or line 8 may be taxed on line 7.

Rents from personal property that is not leased with real property should be reported on line 12 of Part I.

See Form 8582 (for trusts) or Form 8810 (for corporations) and section 469 for limitations on losses from rental activities.

## Schedule E—Unrelated Debt-Financed Income

Schedule E applies to all organizations except sections 501(c)(7), (9), and (17) organizations.

When debt-financed property is held for exempt purposes and other purposes, the organization must allocate the basis, debt, income, and deductions among the purposes for which the property is held.

Do not include in Schedule E amounts allocated to exempt purposes.

**Column 1—Description of debt-financed property.**—Any property held to produce income is debt-financed property if at any time during the tax year there was acquisition indebtedness outstanding for the property. When any property held for the production of income by an organization is disposed of at a gain during the tax year, and there was acquisition indebtedness outstanding for that property at any time during the 12-month period before the date of disposition, the property is debt-financed property. Securities purchased on margin are considered debt-financed property if the liability incurred in purchasing them remains outstanding.

Acquisition indebtedness is the outstanding amount of principal debt incurred by the organization to acquire or improve the property:

1. Before the property was acquired or improved, if the debt was incurred because of the acquisition or improvement of the property; or
2. After the property was acquired or improved, if the debt was incurred because of the acquisition or improvement, and the organization could reasonably foresee the need to incur the debt at the time the property was acquired or improved.

With certain exceptions, acquisition indebtedness does not include debt incurred by:

1. A qualified (section 401) trust in acquiring or improving real property. See section 514(c)(9) for more details.
2. A tax-exempt school (section 170(b)(1)(A)(ii)) and its affiliated support organizations (section 509(a)(3)) for indebtedness incurred after July 18, 1984.
3. An organization described in section 501(c)(25) in tax years beginning after December 31, 1986.

See Pub. 598 for additional exceptions to the rules for debt-financed property.

**Column 2.**—Income is not unrelated debt-financed income if it is otherwise included in unrelated business taxable income. For example, do not include rents from personal property shown in Schedule C, or rents and interest from controlled organizations shown in Schedule F.

**Column 4.**—Average acquisition indebtedness for any tax year is the average amount of the outstanding principal debt during the part of the tax year the property is held by the organization. To figure the average amount of acquisition debt, determine the amount of the outstanding principal debt on the first day of each calendar month during that part of the tax year that the organization holds the property. Add these amounts together, and divide the result by the total number of months during the tax year that the organization held the property. See section 514(a) and the related regulations for property acquired for an indeterminate price.

**Column 5.**—The average adjusted basis for debt-financed property is the average of the adjusted basis of the property on the first and last days during the tax year that the organization holds the property. Determine the adjusted basis of property under section 1011. Adjust the basis of the property by the depreciation for all earlier tax years, whether or not the organization was exempt from tax for any of these years. Similarly, for tax years during which the organization is subject to tax on unrelated business taxable income, adjust the basis of the property by the entire amount of allowable depreciation, even though only a part of the deduction for depreciation is taken into account in figuring unrelated business taxable income.

If no adjustments to the basis of property under section 1011 apply, the basis of the property is cost.

See section 514(d) and the related regulations for the basis of debt-financed property acquired in a complete or partial liquidation of a corporation in exchange for its stock.

**Column 7.**—The amount of income from debt-financed property included in unrelated trade or business income is figured by multiplying the property's gross income by the percentage obtained from dividing the property's average acquisition indebtedness for the tax year by the property's average adjusted basis during the period it is held in the tax year. This percentage cannot be more than 100%.

**Column 8.**—For each debt-financed property, deduct the same percentage (as determined above) of the total deductions that are directly connected to the income (including the dividends-received deductions allowed by sections 243, 244, and 245). However, if the debt-financed property is depreciable property, figure the depreciation deduction by the straight line method only, and enter the amount in column 3(a).

For each debt-financed property, attach schedules showing separately a computation of the depreciation deduction (if any) reported in column 3(a) and a breakdown of the expenses included in column 3(b). Corporations owning stock that is unrelated debt-financed property should see Schedule C (Dividends and Special Deductions) of Form 1120, U.S. Corporation Income Tax Return, to determine the dividends-received deductions to include in column 3(b).

Enter on the last line of Schedule E, the total dividends-received deductions (after reduction, when applicable, by the debt-basis percentage(s)) included in column 8.

When a capital loss for the tax year may be carried back or carried over to another tax year, the amount to carry over or back is figured by using the percentage determined above. However, in the year to which the amounts are carried, do not apply the debt-basis percentage to determine the deduction for that year.

**Example 1.**—An exempt organization owns a four-story building. Two floors are used for an exempt purpose and two floors

are rented (as an unrelated trade or business) for \$10,000. Expenses are \$1,000 for depreciation and \$5,000 for other expenses that relate to the entire building. The average acquisition indebtedness is \$6,000, and the average adjusted basis is \$10,000. Both apply to the entire building.

To complete Schedule E for this example, describe the property in column 1. Enter \$10,000 in column 2 (since the entire amount is for debt-financed property), \$500 and \$2,500 in columns 3(a) and 3(b), respectively (since only one-half of the expenses are for the debt-financed property), \$3,000 and \$5,000 in columns 4 and 5, respectively (since only one-half of the acquisition indebtedness and the average adjusted basis are for debt-financed property), 60% in column 6, \$6,000 in column 7, and \$1,800 in column 8.

**Example 2.**—Assume the same facts as in Example 1, except the entire building is rented out as an unrelated trade or business for \$20,000. To complete Schedule E for this example, enter \$20,000 in column 2, \$1,000 and \$5,000 in columns 3(a) and 3(b), respectively (since the entire amount is for debt-financed property), \$6,000 and \$10,000 in columns 4 and 5 (since the entire amount is for debt-financed property), 60% in column 6, \$12,000 in column 7, and \$3,600 in column 8.

## Schedule F—Interest, Annuities, Royalties, and Rents From Controlled Organizations

Interest, annuities, royalties, and rents received by a controlling organization from a controlled organization are subject to tax, whether or not the activity conducted by the controlling organization to earn these amounts is a trade or business or is regularly carried on.

“Control” means: (a) for a stock corporation, the ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of all other classes of stock of the corporation, or (b) at least 80% of the directors or trustees of a nonstock organization are either representatives of, or directly or indirectly controlled by, an exempt organization.

Controlling organizations complete columns 2 through 7 of Schedule F as follows:

**Column 2.**—Enter total gross interest, annuities, royalties, and rents from each controlled organization during the year.

**Column 3.**—Enter the total deductions directly connected with the column 2 income for each controlled organization.

**Column 4.**—If the controlled organization is exempt from tax under section 501(a), enter in column 4(c) the percentage that is figured by dividing the unrelated business taxable income of the controlled organization by the greater of:

- The taxable income of the controlled organization (figured as though it were not exempt from tax under section 501(a)); or
- Its unrelated business taxable income.

Both are figured without any amount paid directly or indirectly to the controlling organization.

**Column 5.**—If the controlled organization is not exempt from tax under section 501(a), enter in column 5(c) the percentage that is figured by dividing the excess taxable income (defined below) of the controlled organization by the greater of:

- The taxable income of the controlled organization, or
- Its excess taxable income.

Both are figured without any amount paid directly or indirectly to the controlling organization.

Excess taxable income is the amount by which the controlled organization’s taxable income is more than the taxable income that, if earned directly by the controlling organization, would not be unrelated business taxable income.

## Schedule G—Investment Income of a Section 501(c)(7), (9), or (17) Organization

Generally, for section 501(c)(7), (9), or (17) organizations, unrelated trade or business income includes all gross income from nonmembers with certain modifications. See section 512(a)(3)(A). Report on Schedule G all income from investments in securities and other similar investment income from nonmembers, including 100% of income and directly connected expenses from debt-financed property. Do not report nonmember income from debt-financed property on Schedule E.

All sections 501(c)(7), (9), and (17) organizations figure their investment income using Schedule G. Do not include interest on state and local governmental obligations described in section 103(a).

Investment income includes all income from debt-financed property whether or not the income is subject to unrelated business income tax.

Deduct only those expenses that are directly connected to the net investment income. Allocate deductions between exempt activities and other activities where necessary. The organization may not take the dividends-received deductions in figuring net investment income because they are not treated as directly connected with the production of gross income.

Sections 501(c)(7), (9), and (17) organizations may set aside income that would otherwise be taxable under section 512(a)(3). However, income derived from an unrelated trade or business may not be set aside and thus cannot be exempt function income. In addition, any income set aside and later expended for other purposes must be included in income.

Sections 501(c)(7), (9), and (17) organizations will not be taxed on income set aside for:

1. Religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals;

2. The payment of life, sick, accident, or other benefits by a section 501(c)(9) or (17) organization. The amount allowed as a set aside may not exceed a limit determined using section 419A. See sections 419A and 512(a)(3)(E) for details;

3. Reasonable administration costs directly connected with 1 and 2 above.

Report income set aside in column 4 of Schedule G. Amounts set aside are not deductible under section 170 or any other section of the Code.

The organization may elect to treat income set aside by the date for filing the return, including any extensions of time, as income set aside in the tax year for which the return is filed. The income set aside must have been includible in gross income for that earlier tax year.

Although set aside income may be accumulated, any accumulation that is unreasonable will be evidence that the set aside was not for the purposes described above.

Net investment income set aside must be specifically earmarked as such, or placed in a separate account or fund (except for an employees’ association which, by the terms of its governing instrument, must use its net investment income for the purposes stated in 2 above).

These rules apply to a corporation described in section 501(c)(2) (title holding corporation) whose income is payable to an organization described in section 501(c)(7), (9), or (17) if it files a consolidated return with the section 501(c)(7), (9), or (17) organization.

If a section 501(c)(7), (9), or (17) organization (or a title holding corporation described above) sells property that was used for the exempt function of the section 501(c)(7), (9), or (17) organization, and buys other property used for the organization’s exempt function within a period beginning 1 year before the date of the sale, and ending 3 years after the date of the sale, the gain from the sale will be recognized only to the extent that the sales price of the old property is more than the cost of the other property. The other property need not be similar in type or use to the old property. The organization must notify the IRS of the sale by a statement attached to the return, or other written notice.

To compute the gain on the sale of depreciable property, see the instructions for column 5 of Schedule E to determine the adjusted basis of the property.

## Schedule I—Exploited Exempt Activity Income, Other Than Advertising Income

A section 501(c)(7), (9), or (17) organization does not report exploited exempt activity income in Schedule I. Report the income in Part I, line 1a instead or the appropriate line for the particular kind of income.

Exempt organizations (other than section 501(c)(7), (9), or (17) organizations) that have gross income from an unrelated trade or business activity that exploits an exempt activity (other than advertising income) should complete Schedule I. See Regulations section 1.513-1(d)(4)(iv) for a definition of exploited exempt activity.

An organization may take all deductions directly connected with the gross income from the unrelated trade or business activity. In addition, the organization may take into account all deductible items attributable to the exploited exempt activity, with the following limitations:

1. Reduce the deductible items of the exempt activity by the income from the activity;
2. Limit the net amount of deductible items arrived at in 1 above for the exempt activity to the net unrelated business income from the exploited exempt activity;
3. Exclude income and expenses of the exempt activity in figuring a loss carryover or carryback from the unrelated trade or business activity exploiting the exempt activity; and
4. Exclude deductible items of the exempt activity in figuring unrelated trade or business income from an activity that is not exploiting the same exempt activity.

Therefore, the net includible exploited exempt activity income is the unrelated business taxable income minus the excess of the exempt activity expenses over the exempt activity income. If the income from the exempt activity exceeds the exempt activity expenses, do not add that profit to the net income from the unrelated business activity. If two or more unrelated trade or business activities exploit the same exempt activity, treat those activities

as one on Schedule I. Attach a separate schedule showing the computation.

## Schedule J—Advertising Income

A section 501(c)(7), (9), or (17) organization does not report advertising income on Schedule J. Instead, report that income in Part I, line 1a.

An exempt organization (other than a section 501(c)(7), (9), or (17) organization) that earned gross income from the sale of advertising in an exempt organization periodical must complete Schedule J. The part of the advertising income taken into account is determined as follows:

**1.** If direct advertising costs (expenses directly connected with advertising income) are more than advertising income (unrelated business income), deduct that excess in figuring unrelated business taxable income from any other unrelated trade or business activity carried on by the organization.

**2a.** If advertising income is more than direct advertising costs, and circulation income (exempt activity income) equals or exceeds readership costs (exempt activity expenses), then unrelated business taxable income is the excess of advertising income over direct advertising costs.

**b.** If advertising income is more than direct advertising costs, and readership costs are more than circulation income, then unrelated business taxable income is the excess of total income (advertising income and circulation income) over total periodical costs (direct advertising costs and readership costs).

**c.** If the readership costs are more than the circulation income, and the net readership costs are more than the excess of advertising income over direct advertising costs, no loss is allowable. See Regulations section 1.512(a)-1(f)(2)(ii)(b).

For allocating membership receipts to circulation income, see Rev. Rul. 81-101, 1981-1 C.B. 352.

### Consolidated periodicals

If an organization publishes two or more periodicals, it may elect to treat the gross

income for all (but not less than all) periodicals, and deductions directly connected with those periodicals (including excess readership costs), as if the periodicals were one to determine its unrelated business taxable income. This rule only applies to periodicals published for the production of income. A periodical is considered published for the production of income if gross advertising income of the periodical is at least 25% of the readership costs, and the periodical is an activity engaged in for profit.

## Schedule K—Compensation of Officers, Directors, and Trustees

Complete columns 1 through 4, Schedule K, for those officers, directors, and trustees whose salaries or other compensation are allocable to unrelated business gross income. Do not include in column 4 compensation that is deducted on Schedules A through J of the return.

Include on Schedule K (or elsewhere on the return) only compensation that is directly attributable to the unrelated trade or business activities of the organization. If personnel is used both to carry on exempt activities and to conduct unrelated trade or business activities, the salaries and wages of those individuals will be allocated between the activities. For example, assume an exempt organization derives gross income from the conduct of certain unrelated trade or business activities. The organization pays its president a salary of \$65,000 a year. Ten percent of the president's time is devoted to the unrelated business activity. On Form 990-T, the organization enters \$6,500 (10% of \$65,000) on Schedule K for the part of the president's salary allocable to the unrelated trade or business activity. However, no further deduction is allowable for the salary elsewhere on the return (e.g., Schedule A or Schedule J).

If taxable fringe benefits are provided to your employees, such as personal use of a car, do not deduct as salaries and wages the amounts you deducted for depreciation and other deductions.

## Codes for Unrelated Business Activity

*(If engaged in more than one unrelated business activity, select up to three codes for the principal activities. List first the largest in terms of unrelated income, then the next largest, etc.)*

<p><b>AGRICULTURE, FORESTRY, AND FISHING</b></p> <p><b>Code</b> 0400 Agricultural production 0600 Agricultural services (except veterinarians), forestry, fishing, hunting and trapping 0740 Veterinary services</p>	<p style="text-align: center;"><b>RETAIL TRADE</b></p> <p><b>Code</b> 5200 Building materials, hardware, garden supply and mobile home dealers 5300 General merchandise stores</p> <p><b>Food stores</b> 5410 Grocery stores 5460 Bakeries 5495 Health food stores 5498 Other food stores 5500 Automotive dealers and gasoline service stations 5600 Apparel and accessory stores</p> <p><b>Home furniture, furnishings, and equipment stores</b> 5734 Computer and computer software stores 5799 Home furniture, furnishings, and other equipment stores</p> <p><b>Eating and drinking places</b> 5811 Caterers 5812 Other eating places 5813 Drinking places (alcoholic beverages)</p> <p><b>Miscellaneous retail</b> 5910 Drugstores and proprietary stores 5930 Used merchandise stores 5941 Sporting goods stores and bicycle shops 5942 Book stores 5947 Gift, novelty, and souvenir shops 5961 Catalog and mail order houses 5992 Florists 5994 News dealers and newstands 5995 Optical goods 5996 Hearing aids 5997 Orthopedic and artificial limbs stores 5998 Miscellaneous retail stores</p>	<p><b>Code</b></p> <p><b>Personal services</b> 7210 Laundry, cleaning and garment services 7298 Miscellaneous personal services</p> <p><b>Business services</b> 7310 Advertising (including printing) 7331 Direct mail advertising services 7334 Photocopying and duplicating services 7345 Building cleaning and maintenance services 7352 Medical equipment rental and leasing 7360 Personnel supply services 7371 Computer programming services 7374 Computer processing and data preparation, and processing services 7377 Computer rental and leasing 7378 Computer maintenance and repair 7388 Other business services 7500 Automotive repair, services, and parking 7600 Miscellaneous repair services 7800 Motion pictures</p> <p><b>Amusement and recreation services</b> 7910 Dance studios, schools, and halls 7920 Theatrical producers (except motion pictures), bands, orchestras, and entertainers 7933 Bowling centers 7940 Commercial sports 7991 Physical fitness facilities 7992 Public golf courses 7996 Amusement parks 7997 Membership sports and recreation clubs 7998 Amusement and recreation services, not elsewhere classified</p> <p><b>Health services</b> 8010 Offices and clinics of doctors 8020 Offices and clinics of dentists 8045 Offices and clinics of other health practitioners 8050 Nursing and personal care facilities 8060 Hospitals 8071 Medical laboratories 8072 Dental laboratories 8080 Home health care services 8094 Specialty outpatient facilities 8095 Blood banks 8096 In vitro fertilization 8097 Family planning clinics 8098 Health and allied services, not elsewhere classified 8100 Legal services</p> <p><b>Educational services</b> 8210 Elementary and secondary schools 8220 Colleges, universities, and professional schools 8240 Vocational schools 8298 Schools and educational services, not elsewhere classified</p> <p><b>Social services</b> 8320 Individual and family social services 8330 Job training and vocational rehabilitation services 8351 Child day care services 8361 Residential care 8399 Social services, not elsewhere classified 8400 Museums, art galleries and botanical and zoological gardens</p> <p><b>Engineering, accounting, research, management, and related services</b> 8712 Architectural services 8715 Engineering and surveying services 8720 Accounting, auditing and bookkeeping services 8734 Testing laboratories 8735 Research and development 8745 Management and management consulting services 8980 Miscellaneous services</p>
<p style="text-align: center;"><b>MINING</b></p> <p><b>Code</b> 1330 Crude petroleum, natural gas and natural gas liquids 1399 All other mining</p>	<p style="text-align: center;"><b>FINANCE, INSURANCE AND REAL ESTATE</b></p> <p><b>Code</b></p> <p><b>Depository institutions</b> 6020 Commercial banks, including bank holding companies 6030 Savings institutions 6060 Credit unions 6098 Other depository institutions</p> <p><b>Nondepository credit institutions</b> 6140 Personal credit institutions, including mutual benefit associations 6199 Other nondepository credit institutions 6200 Security, commodity brokers, dealers, exchanges and services</p> <p><b>Insurance</b> 6310 Life insurance 6321 Accident and health insurance 6324 Hospital and medical service plans 6330 Fire, marine and casualty insurance 6370 Pension, health and welfare funds 6398 All other insurance carriers 6410 Insurance agents, brokers and services</p> <p><b>Real estate</b> 6512 Operators of nonresidential buildings 6513 Operators of apartment buildings 6515 Operators of residential mobile home sites 6518 All other real estate operators (except developers) and lessors 6530 Real estate agents and managers 6550 Land subdividers and developers 6599 Other real estate</p> <p><b>Holding and other investment companies, except bank holding companies</b> 6730 Trusts 6797 Investment clubs 6798 Miscellaneous holding and investment offices</p>	<p style="text-align: center;"><b>OTHER</b></p> <p><b>Code</b> 9000 Unrelated debt-financed activities other than rental of real estate 9100 Investment activities by section 501(c)(7), (9), (17), or (20) organizations 9200 Rental of personal property 9300 Passive income activities with controlled organizations 9400 Exploited exempt activities</p>
<p style="text-align: center;"><b>CONSTRUCTION</b></p> <p><b>Code</b> 1510 General building contractors 1798 All other construction</p>	<p style="text-align: center;"><b>SERVICES</b></p> <p><b>Code</b></p> <p><b>Hotels, rooming houses, camps, and other lodging places</b> 7010 Hotels and motels 7020 Rooming and boarding houses 7030 Camps and recreational vehicle parks 7040 Organization hotels and lodging houses, on membership basis</p>	
<p style="text-align: center;"><b>MANUFACTURING</b></p> <p><b>Code</b> 2000 Food and kindred products 2100 Tobacco manufacturers 2200 Textile mill products 2300 Apparel and other textile products 2400 Lumber and wood products, except furniture 2500 Furniture and fixtures 2600 Paper and allied products</p> <p><b>Printing, publishing and allied industries</b> 2710 Newspapers 2720 Periodicals 2730 Books 2750 Commercial printing (except advertising) 2770 Greeting cards 2799 All other printing and printing trade services 2800 Chemicals and allied products 2900 Petroleum refining and related industries (including those integrated with extraction) 3000 Rubber and miscellaneous plastics products 3100 Leather and leather products 3200 Stone, clay, glass and concrete products 3300 Primary metal industries 3400 Fabricated metal products, except machinery and transportation equipment 3500 Industrial and commercial machinery and computer equipment 3600 Electronic and other electrical equipment and components, except computer equipment 3700 Transportation equipment</p> <p><b>Measuring, analyzing, and controlling instruments; photographic, medical and optical goods; watches and clocks</b> 3841 Surgical and medical instruments and apparatus 3842 Orthopedic, prosthetic, and surgical appliances and supplies 3899 Other instruments; photographic and optical goods; watches and clocks 3900 Miscellaneous manufacturing industries</p>		
<p style="text-align: center;"><b>TRANSPORTATION, COMMUNICATIONS, ELECTRIC, GAS AND SANITARY SERVICES</b></p> <p><b>Code</b></p> <p><b>Transportation</b> 4117 Sightseeing buses 4118 Ambulance service (local) 4140 Bus charter service 4199 Other local and suburban transit and interurban highway passenger transportation 4724 Travel agencies 4725 Tour operators 4799 All other transportation</p> <p><b>Communication</b> 4830 Radio and television broadcasting 4898 Other communication services 4900 Electric, gas and sanitary services</p>		
<p style="text-align: center;"><b>WHOLESALE TRADE</b></p> <p><b>Code</b> 5000 Durable goods 5100 Nondurable goods</p>		

