

Unrelated Business Income Tax Returns, 2004

by Margaret Riley

The aggregate “unrelated business” income tax (UBIT) liability of nonprofit charitable and other types of tax-exempt organizations rose 66 percent between Tax Years 2003 and 2004. These organizations may engage in activities considered unrelated to their tax-exempt missions, but income produced from these activities is subject to Federal taxation.¹ Of the 38,040 organizations that were required to file Forms 990-T, *Exempt Organization Business Income Tax Returns*, for Tax Year 2004 (Filing Years 2005 and 2006), 48 percent reported positive unrelated business taxable income (UBTI). The number of organizations filing Forms 990-T increased about 5 percent, with the number reporting positive UBTI increasing 16 percent.

Tax-exempt organizations produced a total of \$9.5 billion of gross unrelated business income (UBI) for 2004, nearly 13 percent more than the 2003 amount. After offsetting total gross UBI with \$9.0 billion of total deductions, the resulting UBTI (less deficit) for 2004 was \$0.5 billion. Positive UBTI amounted to \$1.3 billion for 2004, a 65-percent increase over 2003, and the associated UBIT was \$364.6 million. After adjusting UBIT with certain credits and other taxes, the total tax reported on Form 990-T was \$367.7 million. Figure A contains these and other statistics for selected major financial data items reported on Forms 990-T for Tax Years 2003 and 2004.

Total tax takes into account \$364.6 million of unrelated business income tax, plus \$3.9 million of alternative minimum tax, \$4.3 million of “proxy tax” on certain nondeductible lobbying and political expenditures, and \$0.1 million of “other” taxes, minus \$5.2 million of tax credits.² Tax credits included the foreign tax credit (\$3.5 million), general business credit (\$1.0 million), credit for prior-year minimum tax (\$0.4 million), and “other” credits (\$0.3 million).

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Figure A

Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 2003 and 2004

[Money amounts are in thousands of dollars]

Item	2003	2004	Percentage change
	(1)	(2)	(3)
Number of returns, total	36,064	38,040	5.5
With gross unrelated business income of \$10,000 or less [1]	12,681	13,880	9.5
With gross unrelated business income over \$10,000 [1]	23,383	24,160	3.3
With unrelated business taxable income	15,580	18,099	16.2
Without unrelated business taxable income [2]	20,484	19,941	-2.7
Gross unrelated business income	8,436,027	9,492,228	12.5
Total deductions [3]	8,412,822	8,979,863	6.7
Unrelated business taxable income (less deficit)	23,204	512,364	2,108.1
Unrelated business taxable income	780,149	1,287,972	65.1
Deficit	756,944	775,607	2.5
Unrelated business income tax	219,949	364,615	65.8
Total tax	220,916	367,698	66.4

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

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

[3] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was \$2.5 billion for 2003 and \$2.8 billion for 2004.

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

Background

Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed to generate income from unrelated business activities; however, the income from these activities is subject to taxation. Unrelated business income is produced from an activity that is both con-

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

² See the definition of Proxy Tax in the Explanation of Selected Terms section of this article. The proxy tax of \$4.3 million shown in the total tax computation is only that reported by Form 990-T filers with gross unrelated business income above the \$1,000 filing threshold, a criterion for selection into the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included. According to IRS Business Returns Transactions File records, total proxy tax of \$8.1 million was reported on Forms 990-T for Tax Year 2004.

ducted on a regular basis and not directly related to an organization's tax-exempt mission. The fact that the income may be used for furthering an organization's exempt purposes does not alter the definition.³ Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates.⁴ Certain activities are excluded from taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code (IRC).

Form 990-T Filing Requirements

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

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than \$100,000 and total end-of-year assets of less than \$250,000).⁵ IRC section 501(c)(3) private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Form 990-T is required only for a tax year in which an organization has unrelated business income.

To report unrelated business income of \$1,000 (the filing threshold) or more for Tax Year 2004, IRC section 220(e), 401(a), 408(e), 408A, and 530(a) trusts' required reporting period was Calendar Year 2004, and the Form 990-T filing date was April 15, 2005. For all other organizations, the required reporting period was any accounting period beginning in Calendar Year 2004 (and, therefore, ending between December 2004 and November 2005, for full-year return filers). The associated required due dates for filing Tax Year 2004 Forms 990-T generally spanned May 2005 to April 2006, but extensions of time to file beyond this period were routinely granted to many organizations. Corresponding to the required filing dates, the Tax Year 2004 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2005 and 2006. (See the Data Sources and Limitations section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a Tax Year 2004 return, the financial activities covered in this article span the period January 2004 through November 2005, although 58 percent of Form 990-T filers had Calendar Year 2004 accounting periods.

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

³ See the definition of Unrelated Business Activity in the Explanation of Selected Terms section of this article for more information.

⁴ The corporate and trust tax-rate schedules for Tax Year 2004 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

⁵ Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received \$1,000 or more of gross income from business activities that were considered unrelated to their religious purposes. Internal Revenue Code section 4947(a)(1) "nonexempt charitable trusts" and section 4947(a)(2) "split-interest trusts" are required to report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T. Published statistical reports on charitable and other nonprofit organizations, private foundations, and split-interest trusts are available from the Tax Stats pages of the IRS Web site at <http://www.irs.gov/taxstats>.

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Reported Tax Liability

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

Key Factors Affecting Unrelated Business Taxable Income and Tax

Unrelated business taxable income and tax declined each tax year from 1998 to 2002, a period when financial markets experienced high volatility.⁶ Over the 4-year period, UBTI and UBIT each decreased more than 60 percent. In the period between Tax Years 2002 and 2004, when stocks and other financial vehicles performed favorably, UBTI rose 99 percent, and UBIT rose 88 percent. Key factors affecting the amount of UBTI and UBIT reported each year on Form 990-T include the effect of market fluctuations on organizations with large amounts of unrelated business investment income; the organizational structure of an entity, as either a corporation or trust; each type of organization's applicable tax rates; and the interrelationship between total amounts of gross UBI and allowable deductions. When analyzing changes in overall UBTI and UBIT reported for a given tax year, it is difficult to isolate the contribution of any one factor; rather, a blend of factors work together to affect change.

In general, there is a clear distinction between organizations structured as corporations and trusts, with regard to the proportion of UBI attributable to four primary sources of investment income: net capital gains, combined income from partnerships and S corporations, unrelated debt-financed income, and investment income reported by sections 501(c)(7) recreational and social clubs, 501(c)(9) voluntary

employees' beneficiary associations (VEBAs), and 501(c)(17) supplemental unemployment benefit trusts.^{7, 8} Based on data from Forms 990-T filed for Tax Years 1998 to 2004, presented in Figure B, the annual ratios of the total of these four investment items to total gross UBI ranged from 9 percent to 16 percent for tax-exempt corporations, compared to a range of 83 percent to 97 percent for tax-exempt trusts. Tax-exempt trusts historically have been subject to higher marginal tax rates than corporate exempt entities, resulting in higher average UBIT liability amounts for the trusts. Annual average UBIT liability amounts of trusts ranged from two times to six times larger than respective annual average UBIT liability amounts of corporations for tax years spanning 1998 to 2004. In addition, because these trusts hold high concentrations of investment assets that generate UBI, the annual aggregate UBTI and UBIT amounts that they report each year have been closely tied to fluctuations in equity and other financial markets.

Ratios of UBTI to Gross UBI for Selected Types of Organizations

For 2004, 85 percent of all Form 990-T filers had a corporate structure; the remainder were formed as trusts. Certain groups of filers, classified by Internal Revenue Code section, are dominated by organizations with one type of the two structures. Three groups that are comprised mostly of trusts are IRC section 401(a) qualified pension, profit-sharing, and stock bonus plans; section 408(e) traditional Individual Retirement Accounts (IRAs); and section 501(c)(9) VEBAs, all of which typically report income from investment activities as a primary source of UBI. Organizations that rely mainly on investments for income usually have higher UBTI-to-gross-UBI (UBTI-to-GUBI) ratios than organizations with more diverse income sources. By the nature of their operations, heavily invested organizations are

⁶ See Riley Margaret, "Unrelated Business Income Tax Returns, 2002: Financial Highlights and Special Analyses of Exempt-Organization Reporting Quality," *Statistics of Income Bulletin*, Winter 2005-2006, Volume 25, Number 3. This report, along with statistical tables in Excel format, is available from the Tax Stats pages of the IRS Web site at <http://www.irs.gov/taxstats>.

⁷ See the Explanation of Terms section for definitions of these income sources. In addition to Federal taxation of unrelated business activities of a commercial nature, some organizations are also taxed on their investment incomes. All investment income of sections 501(c)(7), (9), and (17) organizations is considered unrelated business income and taxed accordingly. Other exempt organizations' investment income ordinarily is not taxed, unless the investment was purchased with borrowed funds; i.e., debt-financed.

⁸ Rental income is not considered a type of investment income in this article because gross rents from real property were generally excluded in computing unrelated business taxable income (UBTI). The following were considered taxable as UBI: (1) gross rents from personal property (e.g., computer equipment or furniture) leased with real property, if the rental income from the personal property was more than 10 percent, but not more than 50 percent, of the total rents from all leased property; or (2) gross rents from both real property and personal property leased with real property, if the personal property was more than 50 percent of the total rents from all leased property. See the definition of Rental Income in the Explanation of Selected Terms section of this article.

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Figure B

Selected Unrelated Business Income Tax Data for Tax-Exempt Corporate and Trust Entities, Tax Years 1998-2004

[Money amounts are in thousands of dollars]

Type of organization, tax year	Number of returns	Gross unrelated business income (UBI)	Total investment income [1]	Total deductions [2]	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All organizations									
1998	46,208	7,584,915	2,329,669	6,484,443	1,100,470	1,669,753	569,283	505,896	464,288
1999	42,151	7,722,135	2,178,006	6,834,850	887,284	1,484,921	597,637	423,065	421,746
2000	38,567	8,413,385	2,063,897	7,703,052	710,333	1,427,441	717,109	405,826	402,904
2001	35,540	7,900,464	1,291,383	7,882,907	17,557	791,963	774,406	226,032	221,532
2002	35,103	7,776,017	1,074,725	7,922,208	-146,191	647,246	793,438	194,074	192,747
2003	36,064	8,436,027	1,499,461	8,412,822	23,204	780,149	756,944	219,949	220,916
2004	38,040	9,492,228	1,961,146	8,979,863	512,364	1,287,972	775,607	364,615	367,698
Tax-exempt corporations									
1998	31,376	6,202,258	1,006,564	5,896,558	305,699	858,720	553,021	261,970	223,351
1999	31,567	6,260,902	768,062	6,200,866	60,035	633,330	573,295	180,371	182,554
2000	31,245	7,219,027	940,870	7,203,007	16,021	714,035	698,014	208,417	208,363
2001	31,697	7,202,952	689,406	7,486,872	-283,920	469,167	753,087	128,571	128,513
2002	31,282	7,276,187	661,777	7,602,148	-325,961	454,613	780,574	126,652	126,074
2003	31,802	7,579,444	724,255	7,763,313	-183,869	544,050	727,919	154,725	156,238
2004	32,191	8,489,586	1,061,041	8,393,253	96,333	843,114	746,781	252,947	255,772
Tax-exempt trusts									
1998	14,831	1,382,656	1,323,105	587,885	794,771	811,033	16,262	243,926	240,937
1999	10,584	1,461,233	1,409,944	633,984	827,249	851,591	24,342	242,695	239,192
2000	7,322	1,194,357	1,123,027	500,045	694,312	713,407	19,095	197,409	194,541
2001	3,843	697,512	601,977	396,035	301,477	322,796	21,319	97,461	93,019
2002	3,821	499,830	412,948	320,060	179,770	192,633	12,863	67,422	66,673
2003	4,262	856,584	775,206	649,510	207,074	236,099	29,025	65,223	64,678
2004	5,850	1,002,642	900,105	586,610	416,031	444,858	28,827	111,668	111,926

[1] Total investment income includes capital gain net income, combined partnership and S corporation income, unrelated debt-financed income, and investment income of Internal Revenue Code section 501(c)(7), (9), and (17) organizations. Other types of exempt organizations' investment income ordinarily is not taxed, unless the investment was purchased with borrowed funds; i.e., debt-financed.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based).

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

relatively limited in the types and amount of deductions they can claim to offset income. They have lower operating costs because their investment portfolios are usually overseen by only one or two trust managers, and they do not incur the variety of expenses associated with organizations largely engaged in commercial enterprises. As shown in Figure C, sections 401(a), 408(e), and 501(c)(9) organizations had UBTI-to-GUBI ratios of 54 percent, 75 percent, and 38 percent, respectively, for 2004.

Exempt organizations that produce gross UBI from a broad mix of sources, therefore having the opportunity to offset income with a larger range of operational expenses and deductions, include sections 501(c)(3) nonprofit charitable organizations; 501(c)(5) labor, agricultural, and horticultural organizations; 501(c)(4) civic leagues, social welfare organizations, and local associations of employees; 501(c)(6) business leagues, chambers of commerce, and real estate boards; 501(c)(7) recreational and

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Figure C

Selected Sources of Gross Unrelated Business Income (UBI), by Selected Types of Organizations Tax-Exempt under the Internal Revenue Code, Tax Year 2004

[Money amounts are in thousands of dollars]

Item	All organizations	Organization tax-exempt under Internal Revenue Code section:								
		401(a)	408(e)	501(c)(3)	501(c)(4)	501(c)(5)	501(c)(6)	501(c)(7)	501(c)(9)	501(c)(19)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns	38,040	339	4,272	12,395	1,712	2,418	6,230	6,215	766	1,608
Total gross unrelated business income (UBI)	9,492,228	167,160	45,507	5,500,597	625,307	300,659	1,074,449	614,775	632,103	156,286
Gross profit (less loss) from sales and services	4,854,512	6,798	3,485	3,444,917	297,883	128,808	218,161	459,087	5,749	112,064
Capital gain net income	360,046	58,395	10,993	151,204	0	822	2,798	13,104	115,333	1,257
Income (less loss) from partnerships and S corporations	572,093	75,363	25,985	442,371	5,627	2,543	8,490	d	3,435	0
Unrelated debt-financed income	475,467	5,441	2,028	336,531	6,924	26,560	35,703	N/A	N/A	6,663
Investment income (less loss) of IRC section 501(c)(7), (9), and (17) organizations	553,539	N/A	N/A	N/A	N/A	N/A	N/A	56,717	496,823	N/A
Exploited exempt activity income, except advertising	176,462	0	0	82,949	5,960	6,161	76,872	N/A	N/A	1,705
Advertising income	1,417,249	0	0	603,677	141,303	56,989	576,008	N/A	N/A	20,407
Unrelated business taxable income (UBTI)	1,287,972	89,726	34,013	636,103	20,620	28,212	129,657	71,233	237,332	7,157
UBTI-to-GUBI Ratio [1]	13.6	53.7	74.7	11.6	3.3	9.4	12.1	11.6	37.5	4.6

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

N/A—Not applicable.

[1] Ratio of unrelated business taxable income to gross unrelated business income.

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

social clubs; and 501(c)(19) veterans' organizations.⁹ The vast majority of these organizations are structured as corporations, and they are more likely to supplement their mission-related revenues with UBI produced from commercial and, to a lesser extent, investment activities. Within this grouping of organizations, UBTI-to-GUBI ratios ranged from 3 percent to 13 percent.

Relationship Among Gross UBI, Total Deductions, and Taxable Income

Another distinction between tax-exempt corporations and trusts is how the interrelationship between gross UBI and total deductions affects the amount of income that is ultimately taxable. Exempt corporate entities have a higher degree of flexibility in the allocation of administrative and operational expenses to their unrelated business activities, compared to ex-

empt trusts. Historically, corporate Form 990-T filers have accounted for large shares of both total gross UBI and total deductions. For each year in the 1998 to 2004 period presented in Figure B, total deductions reported by corporate Form 990-T filers were between 95 percent and 105 percent of their gross UBI. In comparison, tax-exempt trust filers' total deductions ranged from 42 percent to 76 percent of their gross UBI during the same period.

The synergy of annual rates of change in aggregate income and deductions also contributes, along with other factors, to overall increases or decreases in total UBTI reported each year. While the UBTI of organizations, as a whole, may rise or decline for a given year, the reverse can occur for particular subgroups of Form 990-T filers. Tax Year 2000 is a good example to illustrate this. Aggregate UBTI reported by all organizations declined by 4 percent be-

⁹ The terms "nonprofit charitable organizations" and "charities," used in this article, refer to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, or organizations that test for public safety or prevent cruelty to children or animals.

tween Tax Years 1999 and 2000. However, exempt corporations' UBTI for 2000 rose by 13 percent, and exempt trusts' UBTI declined by 16 percent. The two groups of 31,245 corporate entities and 7,322 trust entities each accounted for half of all UBTI reported for 2000. Aggregate gross UBI and total deductions of all Form 990-T filers increased by 9 percent and 13 percent, respectively, from 1999 to 2000. Corporate filers' experienced a 15-percent growth in total gross UBI and a 16-percent increase in total deductions. In contrast, trust filers experienced declines in both total gross UBI and total deductions, of 18 percent and 21 percent, respectively. For 2000, the ratio of total deductions to gross UBI was virtually 100 percent for tax-exempt corporations and 42 percent for tax-exempt trusts. For organizations reporting positive amounts of UBTI, the ratio was 71 percent for corporate entities, compared to 17 percent for trusts.

Composition of UBI for Selected Types of Organizations

Section 401(a) plans, section 408(e) traditional IRAs, and section 501(c)(9) VEBAs invest their assets to produce income for their beneficiaries. Capital gain net income, combined partnership and S corporation income, and debt-financed income collectively accounted for 83 percent and 86 percent, respectively, of the sections 401(a) and 408(e) trusts' totals of gross UBI, as seen in Figure C. For section 501(c)(9) VEBAs, capital gain net income, combined partnership and S corporation income, and other types of investment income produced 97 percent of their total gross UBI. Other than capital gain net income and combined partnership and S corporation income, all investment income of VEBAs is reported as "investment income" on a special Form 990-T line. Any debt-financed income is included on this line and is not reported separately.¹⁰

Section 501(c)(3) nonprofit charitable organizations reported \$5.5 billion of gross UBI for 2004, of which 74 percent was attributable to gross profit from sales and services and advertising income, two main commercial activities reported on Form 990-T. Another 17 percent was a combined total of capital

gain net income, partnership and S corporation income, and debt-financed income. While this investment income comprised a relatively small proportion of charities' total UBI, the amount reported by charities accounted for 66 percent of the total of these three items reported on Form 990-T overall. In addition, for the charities, the total amount of these items rose 73 percent between 2003 and 2004.

Section 501(c)(6) chambers of commerce, business leagues, and real estate boards grossed \$1.1 billion of UBI for 2004, with gross profit from sales and services and advertising income accounting for 74 percent, and the total of capital gain net income, partnership and S corporation income (less loss), and debt-financed income accounting for only 4 percent. These organizations, many of which are business associations, also produced 7 percent of their gross UBI from "exploited exempt activities." When an exempt organization exploits its name recognition or reputation of goodwill to produce income, such as selling endorsements for commercial products, the income is subject to unrelated business income taxation. Section 501(c)(6) organizations were responsible for 44 percent of the total of exploited exempt activity income.¹¹

Changes in Gross UBI Sources, 2003-2004

A review of gross UBI sources presented in Figure D shows that income from investments made significant gains between 2003 and 2004. Capital gain net income increased by 142 percent, combined income (less loss) from partnerships and S corporations increased by 90 percent, and unrelated debt-financed income increased by 17 percent. The four types of income generated from investment activities—capital gain net income, income (less loss) from partnerships and S corporations, unrelated debt-financed income, and investment income (less loss) of section 501(c)(7), (9), and (17) organizations—together accounted for 21 percent of total gross UBI.

The drop in aggregate investment income (less loss), which is reported only by section 501(c)(7), (9), and (17) organizations, is solely attributable to an organization that reported an atypically large amount of this type of income on its 2003 Form 990-T and

¹⁰ Section 501(c)(7), (9), and (17) organizations report capital gain net income and combined partnership and S corporation income separately, but include debt-financed income and other types of investment income on the "investment income" line specifically designated for these organizations. All other types of exempt organizations report capital gain net income, combined partnership and S corporation income, and debt-financed income separately on Form 990-T.

¹¹ Another 47 percent of exploited exempt activity income was attributable to section 501(c)(3) charities.

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Figure D

Sources of Gross Unrelated Business Income (UBI), Tax Years 2003-2004

[Money amounts are in thousands of dollars]

Item	Tax year 2003	Tax year 2004	Percentage change
	(1)	(2)	(3)
Number of returns	36,064	38,040	5.5
Total gross unrelated business income (UBI)	8,436,027	9,492,228	12.5
Gross profit (less loss) from sales and services	4,501,523	4,854,512	7.8
Capital gain net income	148,657	360,046	142.2
Net capital loss (trusts only)	612	339	-44.6
Net gain (less loss), noncapital assets [1]	13,073	11,980	-8.4
Income (less loss) from partnerships and S corporations	301,520	572,093	89.7
Rental income [2]	274,300	265,970	-3.0
Unrelated debt-financed income	407,164	475,467	16.8
Investment income (less loss) [3]	642,120	553,539	-13.8
Income from controlled organizations [4]	206,355	217,923	5.6
Exploited exempt activity income, except advertising	151,591	176,462	16.4
Advertising income	1,280,994	1,417,249	10.6
Other income (less loss)	509,342	587,324	15.3

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

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

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

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

NOTE: Column detail may not add to totals because of rounding. For explanations of each income source, see the Explanations of Selected Terms section of this article.

a comparatively small amount on its 2004 form. To protect the organization from possible disclosure of identifiable tax information, adjusted totals cannot be provided in Figure D. However, if data from this outlier were excluded, the 2004 amount of aggregate investment income (less loss) would be significantly greater than the 2003 amount.

While not considered an investment-related income source, gross profit (less loss) from sales and services is typically the largest source of income for tax-exempt organizations overall, and its profitability as an unrelated business activity can be favorably affected when financial markets and the economy are strong. Gross profit (less loss) from sales and services increased by 8 percent between 2003 and 2004, from \$4.5 billion to \$4.9 billion. For 2004, it accounted for just over half of total gross UBI. Advertis-

ing services, the second largest source of UBI overall, produced an additional 15 percent of the total.

Nonprofit Charitable Organizations Classified by the National Taxonomy of Exempt Entities

Figure E presents information on categories of section 501(c)(3) nonprofit charitable organizations, based on the National Taxonomy of Exempt Entities (NTEE), a system developed by the National Center for Charitable Statistics, with the collaboration of major nonprofit entities.¹² This figure includes Tax Year 2004 estimates for all charities that filed Form 990/990-EZ “information” returns and the subset of these charities that additionally filed Form 990-T “tax” returns to report unrelated business income (UBI).¹³ The NTEE system classifies organizations by institutional purpose and major programs and activities. It is comprised of 26 major groups, which are then aggregated into 10 categories. The organizations were coded on the basis of information provided on Form 990.

Estimates of Form 990-T data for section 501(c)(3) organizations shown in Figure E are lower than the estimates of these organizations’ overall Form 990-T filings shown in Figure C and Table 1 at the end of this article because some tax-exempt entities are required to file Form 990-T, but not Form 990/990-EZ. These entities include section 501(c)(3) private foundations, most organizations with receipts less than \$25,000, most colleges and universities operated by State and local governments, most churches, and certain other types of religious organizations.

The estimated 9,501 nonprofit charitable organizations with gross unrelated business income represent about 3 percent of the 276,199 section 501(c)(3) organizations that filed Forms 990/990-EZ for 2004. A large variety of organizations with diverse nonprofit purposes are included in the nine aggregated NTEE major categories (excluding “unknown, unclassified”) presented. While only 3 percent of charities, overall, produced UBI, the likelihood for engaging in unrelated business activities can vary significantly depending on the asset size of an organization. For example, a special Statistics of Income study using Tax Year 2003 Form 990-T data revealed

¹² For information on the National Taxonomy of Exempt Entities classification system, see the National Center for Charitable Statistics Web site: www.ncc.urban.org.

¹³ For a more extensive analysis of all nonprofit charitable organizations classified by NTEE category, see Arnsberger, Paul D., “Charities, Social Welfare, and Other Tax-Exempt Organizations, 2004,” *Statistics of Income Bulletin*, Fall 2007, Volume 27, Number 2, pp. 214-215. This report is available from the Tax Stats pages of the IRS Web site at <http://www.irs.gov/taxstats>.

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Figure E

Selected Items for Nonprofit Charitable Organizations Classified by NTEE Category, Tax Year 2004

[Money amounts are in thousands of dollars]

NTEE major category [1]	All nonprofit charitable organizations		Nonprofit charitable organizations with gross unrelated business income						
	Number of returns	Total revenue	Number of returns	Total revenue	Gross unrelated business income			Unrelated business taxable income [2]	Total tax
					Amount	As a percentage of col. (2)	As a percentage of col. (4)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Total	276,199	1,152,989,149	9,501	545,225,473	4,440,965	0.4	0.8	309,291	94,083
Arts, culture, and humanities	28,615	25,515,073	1,197	9,120,379	314,706	1.2	3.5	19,894	5,850
Education	48,920	220,139,219	1,319	121,471,445	615,999	0.3	0.5	61,831	20,242
Environment, animals	11,576	11,134,496	596	4,294,098	117,146	1.1	2.7	2,535	577
Health	36,372	655,062,871	2,475	368,054,814	2,481,888	0.4	0.7	140,723	45,476
Human services	104,837	157,653,242	2,611	18,907,536	397,960	0.3	2.1	41,893	11,200
International, foreign affairs	3,486	17,077,324	49	4,003,467	13,989	0.1	0.3	4,066	1,269
Mutual, membership benefit	674	2,849,553	11	305,309	14,861	0.5	4.9	18	5
Public, societal benefit	24,148	55,169,990	811	17,240,869	372,626	0.7	2.2	34,420	8,508
Religion-related	17,416	8,376,063	431	1,827,557	111,789	1.3	6.1	3,911	958
Unknown/unclassified	156	11,317	0	0	0	N/A	N/A	0	0

N/A—Not applicable.

[1] The National Taxonomy of Exempt Entities (NTEE) is a classification system that uses 26 major field areas that are aggregated into the categories shown above. It was developed by the National Center for Charitable Statistics. The codes describe the purposes and activities of the organizations.

[2] Includes data from returns with positive amounts of unrelated business taxable income only.

NOTES: Data are from linked Forms 990, 990-EZ, and 990-T for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than \$25,000, most colleges and universities operated by State and local governments, as well as most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

that only about 1 percent of charities with assets under \$100,000 had income from unrelated business activities, compared with 39 percent of organizations with assets of \$50,000,000 or more. For other groupings of charities, within four midsize asset classes, the percentages ranged from 2 to 13, increasing progressively as asset size increased.¹⁴

“Health” was by far the largest category in terms of total income reported, both on Forms 990/990-EZ and Forms 990-T. Organizations within this category accounted for 57 percent of the \$1,153.0 billion of revenue reported by all nonprofit charities. They also accounted for 68 percent of the \$545.2 billion of total revenue, 56 percent of the \$4.4 billion of gross UBI, and 48 percent of the \$94.1 million of total tax reported by Form 990/990-EZ filers that also filed Form 990-T. Of the 36,372 charitable organizations in the health category, about 7 percent engaged in unrelated business activities, a larger share than that associated with any other category shown in Figure E, and they filed 26 percent of the 9,501 Forms 990-T

on which UBI was reported. Form 990-T filers with mission-based health programs reported gross UBI that was less than 1 percent of their total revenues. The health category includes organizations that promote the wellness of individuals, the general treatment and prevention of disease or illness (including mental health and illness), and the medical rehabilitation of the physically disabled. Examples are hospitals; nursing or convalescent facilities; health care financing activities; substance abuse treatment services; organizations that study ethics or promote the practice of ethical behavior in medical care and research; health associations active in the prevention or treatment of diseases; and medical research.

The major category of “education” ranked second in the amounts of gross UBI and total tax reported and third in the number of returns filed. The shares of total revenue, gross UBI, and total tax attributable to the 1,319 joint Form 990 and Form 990-T filers in this category were 22 percent, 14 percent, and 22 percent, respectively. Unrelated

¹⁴ See Riley, Margaret, “Unrelated Business Income Tax Returns, 2003: Financial Highlights and A Special Analysis of Nonprofit Charitable Organizations’ Revenue and Taxable Income,” *Statistics of Income Bulletin*, Winter 2006-2007, Volume 26, Number 3. This report is available from the Tax Stats pages of the IRS Web site at <http://www.irs.gov/taxstats>.

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business activities produced less than 1 percent of the \$121.5 billion of total revenue reported by joint Forms 990/990-EZ and 990-T filers with educational purposes or programs. The education category includes higher education (excluding colleges and universities operated by State and local governments that are not required to file Form 990), elementary and secondary schools, correspondence schools, libraries, educational testing services, organizations providing opportunities for continuing education outside the framework of formal education, and student services and organizations.

Organizations classified within the NTEE-defined category of “human services” accounted for the largest number of organizations with UBI shown in Figure E, 28 percent of the total, but they were responsible for only 4 percent of total revenue, 9 percent of gross UBI, and 12 percent of total tax reported by nonprofit charitable organizations that filed both Form 990/990-EZ and Form 990-T. Gross UBI represented 2 percent of their \$18.9 billion of total revenue. The human services category was comprised of organizations in several classifications performing a variety of services focused on specific needs within the community: housing and shelter programs, including housing, construction, management, and services to assist in locating, acquiring, or sustaining housing; job training and placement services; public safety, disaster preparedness, and relief services, including activities related to mitigating the effects of disasters and providing relief to accident victims; amateur sports activities and recreation and sports programs provided by organizations for camps, parks, and playgrounds; crime prevention and legal services; and multipurpose organizations providing a broad range of social or human services to individuals and families.

Summary

Between Tax Years 2003 and 2004, the “unrelated business” income tax (UBIT) liability of charitable and other types of tax-exempt organizations rose 66 percent. These organizations filed 38,040 Forms 990-T for Tax Year 2004 (Filing Years 2005 and 2006), about 5 percent more than the number filed for Tax Year 2003. They reported gross unrelated business income (UBI) of \$9.5 billion and total deductions of \$9.0 billion, resulting in unrelated business taxable income (less deficit) of \$0.5 billion. Close to half of Form 990-T filers reported positive

unrelated business taxable income (UBTI), totaling \$1.3 billion, an increase of 65 percent over the 2003 amount. After adjusting \$364.6 million of UBIT with certain credits and other taxes, the total tax reported on Form 990-T was \$367.7 million.

Key factors affecting the amount of UBIT reported each year on Form 990-T include the effect of market fluctuations on organizations with large amounts of unrelated business investment income; the organizational structure of an entity, as either a corporation or trust; each type of organization’s applicable tax rates; and the interrelationship between total amounts of gross UBI and allowable deductions. In general, there is a clear distinction between organizations structured as corporations and trusts, with regard to the proportion of UBI attributable to investment income. The annual ratios of total investment income to total gross UBI reported on Forms 990-T from 1998 to 2004 ranged from 9 percent to 16 percent for tax-exempt corporations, and 83 percent to 97 percent for tax-exempt trusts. Tax-exempt trusts historically have been subject to higher marginal tax rates than corporate exempt entities, resulting in higher average UBIT liability amounts for the trusts. For each tax year from 1998 to 2004, the average UBIT liability of tax-exempt trusts was much larger than that of tax-exempt corporations, by twofold to sixfold. Additionally, tax-exempt corporate entities have a higher degree of flexibility in the allocation of administrative and operational expenses to their unrelated business activities compared to tax-exempt trusts, which, by the nature of their operations, are relatively limited in the types and amount of deductions they can claim to offset income. For each year in the 1998 to 2003 period, aggregate total deductions reported by corporate Form 990-T filers were between 95 percent and 105 percent of their total gross UBI. Tax-exempt trust filers’ total aggregate deductions were between 42 percent and 76 percent of their total gross UBI.

For Tax Year 2004, about 3 percent of the 276,199 IRC section 501(c)(3) nonprofit charitable organizations filing Forms 990/990-EZ also filed Forms 990-T. This article presents information on various categories of these filers, based on the National Taxonomy of Exempt Entities (NTEE), which classifies organizations by institutional purpose and major programs and activities. Organizations’ tax-exempt missions related to health, education, and human services ranked first, second, and third, respectively, in terms of total revenue reported by all

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charitable organizations, and also in terms of total revenue, total gross UBI, UBTI, and total tax reported by charitable organizations that filed both Forms 990/990-EZ and 990-T. The proportion of total revenue produced from gross UBI by organizations within each of these three program categories was 2 percent or less.

Data Sources and Limitations

The Tax Year 2004 Statistics of Income (SOI) Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special “integrated” sample. The stratified random sample was designed to represent the entire population of Form 990-T filers reporting unrelated business income. The integrated sample was designed to gather information on “related” (tax-exempt) and “unrelated” (taxable) income and expenses for section 501(c)(3) nonprofit charitable organizations that filed both Form 990 (or Form 990-EZ, the short-form version of this information return) and Form 990-T. This integrated sampling program ensured that the SOI sample of Forms 990-T included any unrelated

business income tax returns (with gross UBI of \$1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate SOI sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernoulli sampling. Section 501(c)(3) returns not selected randomly were then linked, by Employer Identification Number (EIN), to returns in the Forms 990/990-EZ sample. These linked returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the “integrated” IRC section 501(c)(3) portion of the Form 990-T sample.¹⁵

Returns in the Form 990-T sample frame were classified into two-dimensional strata, based on the size of gross UBI in the Form 990-T population and the size of total assets in the section 501(c)(3) Form 990/990-EZ population of returns having EINs that matched Form 990-T EINs. As shown in

Figure F

Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2004

Sample group number	Sample group [1]	Population count	Sample count	Designed sample rate	Achieved sample rate
				Percentage	
		(1)	(2)	(3)	(4)
1	Gross unrelated business income (UBI) \$1,000 under \$20,000 and total assets under \$1,000,000, or Gross UBI \$1,000 under \$20,000 and no matching IRC section 501(c)(3) Form 990 or Form 990-EZ	16,382	578	3.65	3.53
2	Gross UBI \$1,000 under \$20,000 and total assets \$1,000,000 under \$2,500,000, or Gross UBI \$20,000 under \$60,000 and total assets under \$2,500,000, or Gross UBI \$20,000 under \$60,000 and no matching Form 990 or Form 990-EZ	7,187	411	5.11	5.72
3	Gross UBI \$1,000 under \$60,000 and total assets \$2,500,000 under \$20,000,000, or Gross UBI \$60,000 under \$250,000 and total assets under \$20,000,000, or Gross UBI \$60,000 under \$250,000 and no matching Form 990 or Form 990-EZ	8,355	1,346	10.42	16.11
4	Gross UBI \$1,000 under \$250,000 and total assets \$20,000,000 under \$50,000,000, or Gross UBI \$250,000 under \$500,000 and total assets under \$50,000,000, or Gross UBI \$250,000 under \$500,000 and no matching Form 990 or Form 990-EZ	2,425	1,669	78.59	68.82
5	Gross UBI \$500,000 or more, or total assets \$50,000,000 or more	3,938	3,936	100.00	99.95
	All sample groups [2]	38,287	7,940	N/A	20.74

N/A—Not applicable.

[1] The Form 990-T sample included returns that were initially selected based on independent Form 990-T sampling criteria, and additional returns that were not initially selected but were subsequently matched to information returns in the Forms 990 and 990-EZ sample of IRC section 501(c)(3) filers. Gross unrelated business income is obtained from Form 990-T and total assets are obtained from Form 990/990EZ.

[2] After excluding returns that were originally selected for the sample but later rejected, the sample size was 7,905, and the estimated population size was 38,040.

¹⁵ For additional information on the Forms 990 and 990-T integrated sample design, see Harte, James M. and Cecelia H. Hilgert (1993), “Enriching One Sample While Improving Another: Linking Differently Stratified Samples of Documents Filed by Exempt Organizations,” *Turning Administrative Systems Into Information Systems*, Statistics of Income.

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Figure F, the designed sampling rates ranged from a minimum of 3.65 percent (Form 990-T gross UBI of \$1,000 under than \$20,000, with either no Form 990/990-EZ EIN match or an EIN match to a section 501(c)(3) Form 990/990-EZ with total assets under \$1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of \$500,000 or more, or Form 990-T with any amount of gross UBI and an EIN match to a section 501(c)(3) Form 990 with total assets of \$50,000,000 or more). Other Forms 990-T were selected at designed rates ranging from 5.11 percent to 78.59 percent.

The population from which the Form 990-T sample was drawn consisted of Tax Year 2004 Form 990-T records posted to the IRS Business Master File system during 2005 and 2006. Returns filed after Calendar Year 2006 were not included in the sample, unless a return was considered a large income-size case (over \$500,000 or more of gross UBI). A sample of 7,940 returns was selected from a population of 38,287. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 7,905 returns, and the estimated population size was 38,040. Rejected returns included those that had gross UBI below the \$1,000 filing threshold; were filed for a part-year 2004 accounting period, and a full-year 2004 return was also filed; or were filed for a part-year accounting period that began in a year other than 2004. For example, a final return filed for the 6-month period of January 2005-June 2005 may have been initially selected for the 2004 sample based on the criterion of an accounting period that ended between December 2004 and November 2005, but it was later rejected because, in actuality, it was a Tax Year 2005 return.

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

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure G shows CVs for selected financial data estimates derived from the Form

Figure G

Coefficients of Variation for Selected Form 990-T Items, by Size of Gross Unrelated Business Income, Tax Year 2004

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
	(1)	(2)	(3)	(4)	(5)
Total	0.18	0.17	0.27	0.75	0.81
\$1,000 under \$10,001 [1]	2.03	3.40	15.34	6.74	7.52
\$10,001 under \$100,000 [1]	2.20	1.88	2.60	5.75	6.46
\$100,000 under \$500,000	1.23	1.01	1.23	3.60	4.51
\$500,000 or more	N/A	N/A	N/A	N/A	N/A

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

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

990-T stratified random sample. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *SOI Bulletin*.

Explanation of Selected Terms

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

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

receipts from sales and services. All other organizations reported this income separately.

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

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

Cost of Sales and Services—Cost of sales and services may have included depreciation, salaries and wages, and certain other types of deductible items. For this reason, the total amount shown for some of the separately reported components of total deductions, such as “salaries and wages,” may be un-

derstated. Cost of sales and services was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI).

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

Deductions Not Directly Connected With Unrelated Business Income—The component deductions were “set-asides,” “excess exempt expenses,” charitable contributions, and the “specific deduction.” The specific deduction was reported, when applicable, by all organizations with positive taxable income; the other types of deductions not directly

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connected with UBI were reported separately, when applicable, only by tax-exempt organizations with gross UBI above \$10,000. (See, also, the explanations of Set-Asides, Excess Exempt Expenses, Contributions, and the Specific Deduction.)

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

Exploited Exempt Activity Income, Except Advertising—In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial manner. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the income it produced was gross income from an unrelated trade or business. An example of this type of activity would be an exempt scientific organization with an excellent reputation in the field of biological research that exploits its reputation regularly by selling endorsements of laboratory equipment to manufacturers. Endorsing laboratory equipment would not have contributed importantly to the accomplishment of any purpose for which tax exemption was granted to the organization. Accordingly, the income from selling such endorsements is gross unrelated business income. Exploited exempt activity income from

advertising was reported separately from other types of exploited exempt activity income (see the explanation of Advertising Income). Internal Revenue Code section 501(c)(7), (9), and (17) organizations reported income from exploited exempt activities as part of gross receipts from sales and services. All other organizations reported this income separately.

Gross Profit (Less Loss) from Sales and Services—This was the gross profit (less loss) from any unrelated trade or business regularly carried on that involved the sale of goods or performance of services. Gross profit (less loss) from sales and services is computed as gross receipts from sales or services, less returns and allowances, minus cost of sales and services.

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

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

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commercial advertising is identified as a trade or business even though the advertising is published in an exempt organization's periodical that contains editorial material related to the organization's exempt purpose.

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

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

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

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

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

Net Operating Loss Deduction (NOLD)—The net operating loss carryover or carryback (as described in Internal Revenue Code section 172) was allowed as a deduction (limited to the current-year excess of receipts over deductions, prior to applying the NOLD) in computing unrelated business taxable income. However, the net operating loss carryover or carryback (allowed only to or from a tax year for which

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

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

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

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

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

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

Specific Deduction—The specific deduction was \$1,000 or the amount of positive taxable income, whichever was less. The amount deducted was con-

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sidered “not directly connected” with gross unrelated business income and was allowed to all organizations that had positive taxable income after all other types of deductions were taken. This deduction provided the equivalent benefit of the \$1,000 gross unrelated business income filing threshold under which some organizations were exempted from filing a return and paying the unrelated business income tax. (See, also, the explanation of Deductions Not Directly Connected With Unrelated Business Income.)

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

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

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

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

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

Unrelated Business Income Tax—This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for Tax Year 2004, as shown in the following schedules. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

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Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
\$ 0	\$1,950	15%	\$0
1,900	4,600	\$292.50 + 25%	1,950
4,500	7,000	955 + 28%	4,600
6,850	9,550	1,627 + 33%	7,000
9,350	--	2,468.50 + 35%	9,550

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

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

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Appendix

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

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

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Appendix

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

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

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

Code section	Description of organization	General nature of activities
501(c)(27)	State-sponsored workers' compensation reinsurance plans	Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers
529(a)	Qualified State Tuition Plans	State- and agency-maintained plans that allow individuals to purchase credits or certificates, or make contributions to an account, to pay for future educational expenses
530(a)	Coverdell Education Savings Accounts	Fiduciary agent for accounts created for the purpose of paying qualified higher education expenses of a designated beneficiary

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

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Table 1. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2004

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

Type of tax-exempt organization, as defined by Internal Revenue Code section	Number of returns (1)	Gross unrelated business income (UBI) (2)	Total deductions [1,2] (3)		Unrelated business taxable income (less deficit) [3] (4)		Unrelated business taxable income (less deficit) [3]—continued (5)		Unrelated business taxable income (4)		Total tax [5] (10)	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
All organizations	38,040	9,492,228	37,883	8,979,863	30,122	512,364	18,099	1,287,972	18,022	367,698		
220(e) Archer Medical Savings Accounts	0	0	0	0	0	0	0	0	0	0		
401(a) Qualified pension, profit-sharing, or stock bonus plans	339	167,160	317	78,509	314	88,652	288	89,726	288	25,092		
408(e) Traditional Individual Retirement Accounts	4,272	45,507	4,224	11,564	4,220	33,943	4,174	34,013	4,093	8,802		
408(A) Roth Individual Retirement Accounts	* 66	* 4,603	* 65	* 891	* 49	* 3,712	* 49	* 3,712	* 31	* 920		
501(c)(2) Title-holding corporations for exempt organizations [6]	348	109,068	348	127,229	307	-18,161	79	6,655	79	2,102		
501(c)(3) Religious, educational, charitable, scientific, or literary organizations	12,395	5,500,597	12,384	5,388,374	9,708	112,223	4,793	636,103	4,801	191,291		
501(c)(4) Civic leagues and social welfare organizations	1,712	625,307	1,706	632,287	1,075	-6,980	463	20,620	450	7,051		
501(c)(5) Labor, agricultural, and horticultural organizations	2,418	300,659	2,418	300,239	1,840	420	775	28,212	776	7,768		
501(c)(6) Business leagues, chambers of commerce, and real estate boards	6,230	1,074,449	6,173	1,005,847	4,256	68,602	2,173	129,657	2,260	40,854		
501(c)(7) Social and recreational clubs	6,215	614,775	6,207	584,715	5,257	30,060	3,766	71,233	3,666	16,996		
501(c)(8) Fraternal beneficiary societies and associations	775	64,363	775	64,575	571	-212	324	5,044	325	1,164		
501(c)(9) Voluntary employees' beneficiary associations	766	632,103	760	414,059	494	218,044	354	237,332	356	59,348		
501(c)(10) Domestic fraternal beneficiary societies and associations	375	26,297	375	26,823	293	-526	90	1,822	90	363		
501(c)(11) Teachers' retirement fund associations	0	0	0	0	0	0	0	0	0	0		
501(c)(12) Benevolent life insurance associations and certain mutual companies	270	85,710	270	85,227	230	483	148	9,670	148	2,679		
501(c)(13) Cemetery companies	* 51	* 4,383	* 51	* 3,374	* 45	* 1,010	* 37	* 1,066	* 37	* 241		
501(c)(14) State-chartered credit unions	161	72,636	161	88,393	151	-15,757	111	4,982	111	1,460		
501(c)(15) Mutual insurance companies	d	d	d	d	d	d	d	d	d	d		
501(c)(16) Corporations organized to finance crop operations	0	0	0	0	0	0	0	0	0	0		
501(c)(17) Supplemental unemployment benefit trusts	0	0	0	0	0	0	0	0	0	0		
501(c)(18) Employee-funded pension trusts	* 7	* 2,103	* 7	* 1,934	* 6	* 169	* 6	* 169	* 6	* 54		
501(c)(19) War veterans' posts or organizations	1,608	156,286	1,608	160,349	1,273	-4,063	437	7,157	472	1,291		
501(c)(21) Black Lung Benefit Trusts [7]	0	0	0	0	0	0	0	0	0	0		
501(c)(22) Withdrawal liability payment funds	0	0	0	0	0	0	0	0	0	0		

Footnotes at end of table.

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Table 1. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2004—Continued

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

Type of tax-exempt organization, as defined by Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
501(c)(23) Veterans' associations founded before 1880	0	0	0	0	0	0	0	0	0	0
501(c)(24) Trusts described in section 4049 of ERISA	0	0	0	0	0	0	0	0	0	0
501(c)(25) Title-holding companies with no more than 35 shareholders	d	d	d	d	d	d	d	d	d	d
501(c)(26) High-risk health insurance plans	0	0	0	0	0	0	0	0	0	0
501(c)(27) Workers' compensation reinsurance plans	d	d	d	d	d	d	d	d	d	d
529(a) Qualified State Tuition Plans	d	d	d	d	d	d	d	d	d	d
530(a) Coverdell Education Savings Accounts	0	0	0	0	0	0	0	0	0	0

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.8 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax, but it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$4.3 million.

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

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

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

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Table 2. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2004

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	38,040	9,492,228	37,883	8,979,863	30,122	512,364	18,099	1,287,972	18,022	367,698
\$1,000 under \$10,001 [6]	13,880	57,462	13,795	62,425	11,359	-4,963	8,521	18,029	8,463	3,047
\$10,001 under \$100,000 [6]	13,283	506,918	13,232	502,631	10,418	4,287	5,239	91,964	5,189	16,593
\$100,000 under \$500,000	8,173	1,757,769	8,158	1,730,337	6,261	27,431	3,270	223,424	3,257	60,594
\$500,000 under \$1,000,000	1,254	874,200	1,250	856,810	959	17,390	522	100,930	523	30,160
\$1,000,000 under \$5,000,000	1,150	2,356,084	1,148	2,238,709	887	117,374	426	319,984	449	97,227
\$5,000,000 or more	300	3,939,796	300	3,588,950	238	350,845	121	533,640	140	160,078

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.8 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$4.3 million.

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

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

Table 3. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2004

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

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
			(1)	(2)	(3)	(4)	(5)	(6)
Total	38,040	9,492,228	37,883	8,979,863	30,122	512,364	18,022	367,698
Deficit	12,023	3,585,960	12,023	4,361,567	12,023	-775,607	69	2,639
Zero [4]	7,918	2,184,388	7,918	2,184,388	0	0	161	1,624
\$1 under \$1,000	3,956	54,487	3,956	52,645	3,956	1,842	3,891	273
\$1,000 under \$10,000	7,623	293,164	7,538	263,739	7,623	29,425	7,514	4,737
\$10,000 under \$100,000	5,009	826,326	4,958	664,437	5,009	161,889	4,885	29,087
\$100,000 under \$500,000	1,144	777,180	1,129	542,474	1,144	234,707	1,137	73,580
\$500,000 under \$1,000,000	158	372,313	154	260,058	158	112,255	158	36,027
\$1,000,000 or more	209	1,398,410	207	650,556	209	747,854	207	219,731

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.8 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$4.3 million.

[4] The Zero category includes returns with equal amounts of gross unrelated business income and total deductions.

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

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Table 4. Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2004

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	18,099	3,721,880	17,942	2,433,908	1,287,972	17,792	363,436
\$1,000 under \$10,001 [4]	8,521	31,172	8,436	13,142	18,029	8,407	2,991
\$10,001 under \$100,000 [4]	5,239	198,915	5,189	106,950	91,964	5,145	16,263
\$100,000 under \$500,000	3,270	715,402	3,254	491,978	223,424	3,190	60,282
\$500,000 under \$1,000,000	522	356,833	518	255,903	100,930	509	30,083
\$1,000,000 under \$5,000,000	426	859,333	424	539,349	319,984	422	96,742
\$5,000,000 or more	121	1,560,225	121	1,026,585	533,640	119	157,074
TAX-EXEMPT CORPORATIONS							
Total	12,938	3,067,437	12,851	2,224,323	843,114	12,739	254,197
\$1,000 under \$10,001 [4]	4,413	18,558	4,356	8,491	10,067	4,355	1,518
\$10,001 under \$100,000 [4]	4,697	178,419	4,681	103,058	75,361	4,643	11,961
\$100,000 under \$500,000	2,927	639,785	2,913	475,765	164,020	2,855	42,931
\$500,000 under \$1,000,000	459	313,015	458	247,082	65,932	446	19,942
\$1,000,000 under \$5,000,000	340	690,847	340	497,868	192,978	336	63,993
\$5,000,000 or more	103	1,226,813	103	892,057	334,755	103	113,852
TAX-EXEMPT TRUSTS							
Total	5,161	654,443	5,091	209,585	444,858	5,053	109,239
\$1,000 under \$10,001 [4]	4,109	12,613	4,080	4,651	7,962	4,052	1,474
\$10,001 under \$100,000 [4]	543	20,496	508	3,892	16,604	502	4,302
\$100,000 under \$500,000	342	75,617	341	16,212	59,404	335	17,350
\$500,000 under \$1,000,000	63	43,818	60	8,821	34,998	63	10,141
\$1,000,000 under \$5,000,000	86	168,486	84	41,481	127,005	86	32,749
\$5,000,000 or more	18	333,413	18	134,528	198,885	16	43,223

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was \$847.2 million, 71 percent of which was attributable to tax-exempt corporations.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive unrelated business taxable income, total proxy tax was \$3.6 million.

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

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

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Table 5. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2004

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All activities and groupings	38,040	9,492,228	37,883	8,979,863	30,122	512,364	18,099	1,287,972	18,022	367,698
Agriculture, forestry, hunting, and fishing	186	64,062	185	29,353	116	34,709	65	36,463	66	12,469
Mining	230	26,823	224	10,007	199	16,816	199	16,816	199	5,097
Utilities	62	36,349	60	25,824	60	10,525	48	11,129	48	3,523
Construction	41	133,012	41	129,036	34	3,976	* 24	* 4,753	* 24	* 1,490
Manufacturing	217	82,229	217	56,758	175	25,471	151	30,151	152	6,642
Wholesale trade	68	30,739	68	6,043	60	24,696	* 41	* 25,434	* 41	* 8,437
Retail trade	1,308	734,810	1,308	769,698	1,109	-34,888	394	28,247	405	7,916
Transportation and warehousing	65	6,508	65	6,736	* 34	* -228	d	d	d	d
Information	753	220,833	752	219,937	541	896	192	24,378	194	7,896
Finance and insurance, total	10,602	1,809,948	10,464	1,331,246	9,310	478,701	8,142	580,579	7,988	161,042
Unrelated debt-financed activities, other than rental of real estate [6]	964	208,745	935	111,217	890	97,529	794	107,894	792	32,963
Investment activities of Code section 501(c)(7), (9), and (17) organizations [6,7]	3,318	664,790	3,305	426,514	2,786	238,276	2,487	258,922	2,453	63,861
Passive income activities with controlled organizations [6]	391	210,050	389	191,205	319	18,845	246	43,371	250	12,555
Other finance and insurance	5,928	726,362	5,834	602,310	5,315	124,051	4,614	170,392	4,493	51,663
Real estate and rental and leasing, total	6,240	1,089,062	6,233	981,884	5,324	107,178	2,870	198,881	2,876	53,810
Rental of personal property	473	68,786	473	66,582	420	2,205	169	5,902	164	1,487
Other real estate and rental and leasing	5,767	1,020,275	5,760	915,302	4,904	104,973	2,702	192,980	2,712	52,324
Professional, scientific, and technical services	7,985	1,913,396	7,985	1,905,874	5,195	7,521	2,423	131,362	2,503	40,915
Management of companies and enterprises	84	41,137	84	26,664	81	14,473	78	15,910	81	5,202
Administrative and support and waste management and remediation services	782	381,278	782	404,622	631	-23,344	222	23,698	226	7,285
Educational services	62	44,117	62	44,288	47	-171	d	d	d	d
Healthcare and social assistance	977	1,271,260	977	1,335,845	778	-64,585	342	73,889	368	24,283
Arts, entertainment, and recreation	4,562	744,440	4,562	785,839	3,281	-41,400	1,524	38,036	1,499	8,615
Accommodation and food services	2,888	616,011	2,887	664,921	2,389	-48,910	918	29,544	912	7,738
Other services	614	152,414	614	157,919	506	-5,505	270	4,544	272	1,058
Exploited exempt activities	250	88,564	250	83,919	219	4,645	138	7,733	139	2,154
Not allocable	* 63	* 5,239	* 63	* 3,451	* 35	* 1,788	d	d	d	d

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.8 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$4.3 million.

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

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

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

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Table 6. Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2004

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI)		Sources of gross unrelated business income (UBI) [1]			
			Gross profit (less loss) from sales and services		Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	38,040	9,492,228	15,889	4,854,512	1,642	360,046
\$1,000 under \$10,001 [2]	13,880	57,462	2,756	9,576	804	2,146
\$10,001 or more, total [2]	24,160	9,434,766	13,133	4,844,936	838	357,900
\$10,001 under \$100,000	13,283	506,918	6,412	221,936	347	7,223
\$100,000 under \$500,000	8,173	1,757,769	4,950	918,683	289	39,770
\$500,000 under \$1,000,000	1,254	874,200	831	465,679	64	22,247
\$1,000,000 under \$5,000,000	1,150	2,356,084	730	1,247,017	98	93,560
\$5,000,000 or more	300	3,939,796	211	1,991,621	39	195,099

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—continued					
	Net capital loss (trusts only)		Net gain (less loss), sales of noncapital assets [3]		Income (less loss) from partnerships and S corporations	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	115	339	311	11,980	6,239	572,093
\$1,000 under \$10,001 [2]	0	0	* 97	* 123	4,239	10,987
\$10,001 or more, total [2]	115	339	214	11,857	2,000	561,107
\$10,001 under \$100,000	* 52	* 142	79	1,282	877	22,523
\$100,000 under \$500,000	32	93	64	3,280	638	82,942
\$500,000 under \$1,000,000	9	38	25	2,505	157	41,445
\$1,000,000 under \$5,000,000	** 22	** 66	** 45	** 4,791	218	152,433
\$5,000,000 or more	**	**	**	**	110	261,763

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—continued					
	Rental income [4]		Unrelated debt-financed income		Investment income (less loss) [5]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	4,313	265,970	3,120	475,467	5,531	553,539
\$1,000 under \$10,001 [2]	1,135	6,474	855	4,200	2,522	6,810
\$10,001 or more, total [2]	3,178	259,497	2,266	471,267	3,008	546,730
\$10,001 under \$100,000	2,078	51,295	1,242	37,340	1,442	20,355
\$100,000 under \$500,000	831	80,836	744	105,481	1,235	57,489
\$500,000 under \$1,000,000	143	38,485	110	47,857	202	30,267
\$1,000,000 under \$5,000,000	92	52,485	128	120,456	111	106,402
\$5,000,000 or more	34	36,395	42	160,133	18	332,217

Footnotes at end of table.

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**Table 6. Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2004
—Continued**

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

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—continued							
	Income from controlled organizations [6]		Exploited exempt activity income, except advertising		Advertising income		Other income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	1,005	217,923	895	176,462	8,207	1,417,249	5,351	587,324
\$1,000 under \$10,001 [2]	219	558	153	804	2,675	12,422	1,284	3,363
\$10,001 or more, total [2]	786	217,365	743	175,658	5,531	1,404,827	4,066	583,960
\$10,001 under \$100,000	294	7,226	286	7,162	2,896	83,885	1,969	46,831
\$100,000 under \$500,000	324	28,364	282	29,657	1,980	286,955	1,591	124,405
\$500,000 under \$1,000,000	54	13,144	67	20,103	293	144,995	218	47,512
\$1,000,000 under \$5,000,000	75	45,480	86	56,387	286	341,411	223	138,250
\$5,000,000 or more	39	123,152	22	62,349	76	547,582	65	226,962

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

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

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

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

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

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

[5] Reported by Internal Revenue Code section 501(c)(7) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

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

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

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Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2004

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

Size of gross unrelated business income (UBI)	All organizations			Organizations with gross unrelated business income (UBI) of \$1,000 under \$10,001 [3]					
	Total number of returns	Total deductions [1, 2]		Total deductions [2, 4]		Net operating loss deduction		Specific deduction	
		Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	38,040	37,883	8,979,863	13,795	62,425	931	2,253	9,435	8,979
\$1,000 under \$10,001 [3]	13,880	13,795	62,425	13,795	62,425	931	2,253	9,435	8,979
\$10,001 under \$100,000 [3]	13,283	13,232	502,631	N/A	N/A	N/A	N/A	N/A	N/A
\$100,000 under \$500,000	8,173	8,158	1,730,337	N/A	N/A	N/A	N/A	N/A	N/A
\$500,000 under \$1,000,000	1,254	1,250	856,810	N/A	N/A	N/A	N/A	N/A	N/A
\$1,000,000 under \$5,000,000	1,150	1,148	2,238,709	N/A	N/A	N/A	N/A	N/A	N/A
\$5,000,000 or more	300	300	3,588,950	N/A	N/A	N/A	N/A	N/A	N/A

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued								
	Deductions directly connected with UBI								
	Total deductions [2, 5]		Total		Allocable to rental income [6]		Allocable to unrelated debt-financed income [6]		Allocable to investment income [6, 7]
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	24,088	8,917,439	22,772	8,232,857	1,582	165,435	2,174	456,902	1,097
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$10,001 under \$100,000 [3]	13,232	502,631	12,294	473,760	976	27,053	1,194	40,469	376
\$100,000 under \$500,000	8,158	1,730,337	7,863	1,625,248	443	53,428	714	107,623	534
\$500,000 under \$1,000,000	1,250	856,810	1,211	800,957	75	24,933	106	46,546	115
\$1,000,000 under \$5,000,000	1,148	2,238,709	1,115	2,096,328	63	35,842	122	127,725	66
\$5,000,000 or more	300	3,588,950	288	3,236,564	25	24,178	38	134,539	5

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued								
	Deductions directly connected with UBI—continued								
	Allocable to investment income [6, 7]—continued	Allocable to income from controlled organizations [6]		Allocable to exploited exempt activity income, except advertising [6]		Direct advertising costs [6]		Compensation of officers, directors, and trustees	
	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	94,449	518	163,538	685	159,345	5,149	987,739	1,980	58,940
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$10,001 under \$100,000 [3]	4,585	221	6,719	277	6,328	2,739	64,731	849	7,258
\$100,000 under \$500,000	5,404	181	15,879	247	24,483	1,794	204,284	861	21,443
\$500,000 under \$1,000,000	1,808	39	8,942	60	18,180	275	103,624	115	5,856
\$1,000,000 under \$5,000,000	6,339	49	27,742	81	52,182	272	241,637	117	10,176
\$5,000,000 or more	76,313	29	104,256	20	58,171	69	373,463	38	14,207

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued								
	Deductions directly connected with UBI—continued								
	Salaries and wages		Repairs and maintenance		Bad debts		Interest		
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	
Total	10,807	1,659,256	7,926	119,687	940	46,660	3,225	68,169	
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
\$10,001 under \$100,000 [3]	4,720	94,953	3,609	12,089	184	591	1,291	7,512	
\$100,000 under \$500,000	4,528	419,821	3,256	37,962	437	3,535	1,460	19,056	
\$500,000 under \$1,000,000	723	189,973	504	16,420	117	1,656	240	8,941	
\$1,000,000 under \$5,000,000	658	443,651	434	22,761	141	13,377	168	14,467	
\$5,000,000 or more	179	510,857	123	30,455	61	27,500	66	18,193	

Footnotes at end of table.

Unrelated Business Income Tax Returns, 2004

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Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2004—Continued

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued							
	Deductions directly connected with UBI—continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	11,475	208,875	8,197	248,450	132	3,468	1,193	13,573
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$10,001 under \$100,000 [3]	5,639	21,055	3,697	19,489	* 96	* 602	420	416
\$100,000 under \$500,000	4,513	82,969	3,345	70,981	* 27	* 831	533	2,766
\$500,000 under \$1,000,000	632	29,781	516	33,201	* 4	* 288	126	1,708
\$1,000,000 under \$5,000,000	537	37,214	487	55,930	** 5	** 1,747	** 114	** 8,683
\$5,000,000 or more	154	37,856	153	68,848	**	**	**	**

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued							
	Deductions directly connected with UBI—continued						Deductions not directly connected with UBI, total	
	Contributions to employee benefit programs		Net operating loss deduction		Other deductions		Number of returns	Amount
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount		
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	5,609	239,713	3,699	309,400	14,883	3,229,259	12,651	684,581
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$10,001 under \$100,000 [3]	1,920	6,929	1,693	14,424	7,282	138,557	6,783	28,871
\$100,000 under \$500,000	2,552	39,619	1,443	54,591	5,593	460,572	4,421	105,089
\$500,000 under \$1,000,000	490	22,534	231	28,968	908	257,598	694	55,854
\$1,000,000 under \$5,000,000	495	71,317	260	95,129	855	836,009	578	142,381
\$5,000,000 or more	152	99,314	72	116,289	245	1,536,522	175	352,387

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more [3]—continued							
	Deductions not directly connected with UBI—continued							
	Specific deduction		Charitable contributions		Set-asides [7]		Excess exempt-activity expenses [8]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	10,322	9,893	2,178	61,208	326	288,520	2,557	324,960
\$1,000 under \$10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$10,001 under \$100,000 [3]	5,751	5,475	1,012	3,212	* 126	* 2,701	1,178	17,483
\$100,000 under \$500,000	3,489	3,353	833	11,307	131	23,173	969	67,255
\$500,000 under \$1,000,000	538	526	136	5,014	26	14,075	170	36,239
\$1,000,000 under \$5,000,000	422	417	129	10,634	34	48,006	187	83,324
\$5,000,000 or more	122	122	69	31,041	9	200,564	53	120,659

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

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

N/A—Not applicable.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.8 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

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

[4] Excludes \$36.2 million of cost of sales and services reported by organizations with gross UBI of \$10,000 or less. See footnote 1 for explanation.

[5] Excludes \$2.7 billion of cost of sales and services reported by organizations with gross UBI over \$10,000. See footnote 1 for explanation.

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

[7] Reported by Internal Revenue Code section 501(c)(7) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

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

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