

The *Statistics of Income (SOI) Bulletin* is issued quarterly by the Statistics of Income Division of the Internal Revenue Service. The report provides the earliest published annual financial statistics obtained from the various types of tax and information returns filed, as well as information from periodic or special analytical studies of particular interest to students of the U.S. tax system, tax policymakers, and tax administrators. Selected historical and other data tables, previously published in the spring issue of the *Bulletin* are now only available on SOI's pages of the IRS Web site (<https://www.irs.gov/uac/soi-tax-stats-historical-data-tables>).

Information on the availability of supplemental data on the topics included in this issue or other SOI subjects, may be obtained by sending an email to SOI's Statistical Information Services at [sis@irs.gov](mailto:sis@irs.gov), or by writing to the Director, Statistics of Income Division RAAS:S, Internal Revenue Service, 1111 Constitution Avenue, NW, K-Room 4112, Washington, D.C. 20224.

The *SOI Bulletin* is prepared under the direction of Wayne Kei, Chief, Communications and Data Dissemination Section. Paul Bastuscheck (layout and graphics), Clay Moulton (layout and graphics), Lisa Smith (layout and graphics editor), and Camille Swick (layout and graphics) are the editorial staff who prepare the manuscript. Carla Borden, Emily Gross, Jim Hobbs, and Beth Kilss also made major contributions in the production of this issue. Views expressed in the articles are those of the authors and do not necessarily represent the views of the Treasury Department or the Internal Revenue Service.

**NOTE:** When using information from this report, cite the publication as follows—

Internal Revenue Service  
Statistics of Income Bulletin  
Winter 2017  
Washington, D.C.

## Inside This Issue:

### Unrelated Business Income Tax Returns, Tax Year 2012

2

by Jael Jackson

For Tax Year 2012, tax-exempt organizations reported \$12.0 billion in gross unrelated business income, a 6-percent increase from Tax Year 2011. Total unrelated business income tax liability increased by 17 percent over the same period, to \$429 million. Filers classified as charitable organizations, which are tax exempt under Internal Revenue Code section 501(c)(3), made up the most common Form 990-T, *Exempt Organization Business Income Tax Return*, filers and represented more than one-third (35 percent) of all organizations that filed the return for Tax Year 2012. These organizations reported 66 percent of all gross unrelated business income for the year, claimed nearly 68 percent of deductions, and accounted for a little more than half (58 percent) of all unrelated business income tax liability. Filers classified as corporations, whose returns comprised nearly 71 percent of all Tax Year 2012 Forms 990-T, reported the majority of gross unrelated business income, investment income, total deductions, and unrelated business income tax for the year.

### Foreign Recipients of U.S. Income, 2013

21

by Scott Luttrell

U.S.-source income payments to foreign persons, as reported on Form 1042-S, *Foreign Person's U.S.-Source Income Subject to Withholding*, rose to \$697.6 billion for Calendar Year 2013. This represents an increase of 3.7 percent from 2012. U.S.-source income payments subject to withholding tax rose by 24.5 percent from 2012, which fueled an increase in withholding taxes of 31.2 percent. Despite these increases, nearly 88 percent of all U.S.-source income paid to foreign persons remained exempt from withholding tax. The residual U.S.-source income subject to tax was withheld at an average rate of 16.8 percent.

# Unrelated Business Income Tax Returns, Tax Year 2012



by Jael Jackson

For Tax Year 2012, tax-exempt organizations reported \$12.0 billion in gross unrelated business income, a 6-percent increase from Tax Year 2011. Total unrelated business income tax liability increased by 17 percent over the same period, to \$429 million. Filers classified as charitable organizations, which are tax exempt under Internal Revenue Code section 501(c)(3), made up the most common Form 990-T filers and represented more than one-third (35 percent) of all organizations that filed the return for Tax Year 2012. These organizations reported 66 percent of all gross unrelated business income for the year, claimed nearly 68 percent of deductions, and accounted for a little more than half (58 percent) of all unrelated business income tax liability. Filers classified as corporations, whose returns comprised nearly 71 percent of all Tax Year 2012 Forms 990-T, reported the majority of gross unrelated business income, investment income, total deductions, and unrelated business income tax for the year.

Tax-exempt organizations generally operate for charitable or other beneficial purposes, with most income exempt from tax under the Internal Revenue Code (IRC). Tax-exempt organizations are permitted to engage in income-producing activities considered unrelated to their exempt purposes. However, to prevent potentially unfair competition between tax-exempt organizations and taxable for-profit entities, income derived from these unrelated activities is taxable. An organization that receives \$1,000 or more in gross unrelated business income in a tax year is required to file Form 990-T, *Exempt Organization Business Income Tax Return*, to determine the amount of unrelated business income tax liability.

Unrelated business income is produced from an activity that is conducted on a regular basis and is not directly related to an organization's tax-exempt mission. Income earned by an organization is treated as unrelated business income if it meets two basic requirements. First, the income is derived from a trade or business that is regularly carried on by the organization. Second, the income is earned from a trade or business that is not substantially related to the performance of the organization's exempt purpose or function. Even if profits from such activities are used by tax-exempt organizations to finance their exempt purposes, income that meets both of these two requirements generally is treated as unrelated business income. However, certain activities are excluded from taxation, such as business activities in which substantially all of the work is performed by volunteer

labor, sales of merchandise that the organization received as a gift or contribution, and the operation of certain games of chance, as specified in the Internal Revenue Code.<sup>1</sup>

For Tax Year 2012, some 46,168 tax-exempt organizations filed Form 990-T to report unrelated business income, an increase of nearly 2 percent from Tax Year 2011 (Figure A). Between Tax Years 2011 and 2012, both gross unrelated business income—that is, the total of all unrelated business income prior to deductions—and reported deductions increased. For Tax Year 2012, tax-exempt organizations reported a 6-percent increase in the total gross unrelated business income received (\$12.0 billion). In aggregate, deductions of \$11.7 billion offset this amount. After reducing their gross unrelated business income by allowable deductions, only about half of all organizations that were required to file Form 990-T for Tax Year 2012 reported unrelated business income tax liability. Tax-exempt organizations reported \$428 million in unrelated business income tax liability, a 17-percent increase from Tax Year 2011.

The total tax reported on Forms 990-T—that is, the sum of unrelated business income tax and certain additional taxes less credits—increased sharply in 2012, to \$426.2 million (see Figure B). The additional taxes included \$16.4 million of alternative minimum tax, \$1.5 million of “proxy tax” on certain nondeductible lobbying and political expenditures, and \$0.54 million of “other” taxes.<sup>2</sup> To arrive at the total tax amount, total tax credits were subtracted from the sum of unrelated business income tax plus additional taxes. Total tax credits equaled

## Highlights

- Over 46,000 tax-exempt organizations filed a Form 990-T with the IRS for Tax Year 2012.
- Over half of all organizations that filed Form 990-T did not report unrelated business income tax liability after subtracting deductions from gross unrelated business income.
- Charitable organizations, exempt under Internal Revenue Code section 501(c)(3), accounted for the most common Form 990-T filers.
- Organizations classified as 501(c)(3) accounted for nearly two-thirds (65 percent) of all unrelated business income, two-thirds (68 percent) of all deductions, and over half (58 percent) of all unrelated business income tax liability.

<sup>1</sup> See “Gross unrelated business income” in “Explanation of Selected Terms” for additional information.

<sup>2</sup> 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 in cases where it did not notify its members of the entire amount of the shares of their dues that were allocated to the nondeductible lobbying and political expenditures. The proxy tax of \$1.4 million used in the total tax computation includes only proxy tax reported by Form 990-T filers with gross unrelated business income greater than the \$1,000 filing threshold. Filers that reported gross unrelated business income less than the \$1,000 threshold were not eligible for selection into the Statistics of Income (SOI) sample. Therefore, proxy tax reported by organizations that had no unrelated business income or those that had unrelated business income less than the filing threshold is not included.



**Figure A**  
**Unrelated Business Income (UBI) Tax Returns: Selected Items**  
**from Forms 990-T, Tax Years 2011 and 2012**

[Money amounts are in thousands of dollars]

| Item                                                         | 2011              | 2012              | Percentage change |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|
|                                                              | (1)               | (2)               |                   |
| <b>Number of returns, total</b>                              | <b>45,384</b>     | <b>46,168</b>     | <b>1.7</b>        |
| With gross unrelated business income of \$10,000 or less [1] | 21,103            | 21,520            | 2.0               |
| With gross unrelated business income over \$10,000 [1]       | 24,281            | 24,648            | 1.5               |
| With unrelated business taxable income                       | 21,660            | 22,727            | 4.9               |
| Without unrelated business taxable income [2]                | 23,724            | 23,441            | [P]               |
| <b>Gross unrelated business income</b>                       | <b>11,371,974</b> | <b>12,066,356</b> | <b>6.1</b>        |
| <b>Total deductions [3]</b>                                  | <b>11,229,268</b> | <b>11,703,675</b> | <b>4.2</b>        |
| <b>Unrelated business taxable income (less deficit)</b>      | <b>142,705</b>    | <b>362,681</b>    | <b>154.1</b>      |
| Unrelated business taxable income                            | 1,354,719         | 1,584,782         | 17.0              |
| Deficit                                                      | 1,212,014         | 1,222,101         | 0.8               |
| <b>Unrelated business income tax</b>                         | <b>364,470</b>    | <b>428,918</b>    | <b>17.7</b>       |
| <b>Total tax</b>                                             | <b>350,770</b>    | <b>426,272</b>    | <b>21.5</b>       |

[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. Gross profit from sales and services is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was \$2.9 billion for 2011 and \$2.7 billion for 2012.

[P] Percentage change is not provided if the current-year data contains a positive value (income) compared to a prior-year negative value (deficit).

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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.

\$23.0 million for Tax Year 2012, exceeding the amount of additional taxes reported. Tax credits included the foreign tax credit (\$15.0 million), general business credit (\$7.5 million), credit for prior-year minimum tax (\$.2 million), and "other" credits (\$0.3 million).

### Composition of Filers

A variety of tax-exempt organizations file Form 990-T to report unrelated business income and the associated tax (Figure C). For Tax Year 2012, organizations classified by the Internal Revenue Code as 501(c)(3), which are known as charitable organizations,

made up the largest share of Form 990-T filers, accounting for 35 percent of returns filed (Figure D). This category does include churches, which are tax exempt under IRC section 501(c)(3) but are not required to apply for exemption. However, churches are required to file Form 990-T if they received \$1,000 or more of gross income from business activities that are considered unrelated to their religious purposes.<sup>3</sup>

In addition to filing the most returns, 501(c)(3) charitable organizations accounted for even higher percentages of gross unrelated business income, total unrelated business income tax, and other financial items. A look at selected financial items for Tax Year 2012—including gross unrelated business income and its components, the ratio of investment income to gross unrelated business income, total deductions, and unrelated business income tax—shows that charitable organizations accounted for 66 percent of the almost \$12.0 billion in gross unrelated business income reported for the year (Figure F). They also claimed 68 percent of total deductions and reported 57 percent of total unrelated business income tax and 92 percent of total investment income.

Traditional Individual Retirement Accounts (IRAs), exempt under section 408(e), totaled 24 percent, accounting for the second largest percentage of returns filed. Generally, organizations that were organized as tax-exempt trusts derived larger percentages of their gross unrelated business income from

**Total tax and gross unrelated business income increased in 2012 to their highest levels since 2008.**

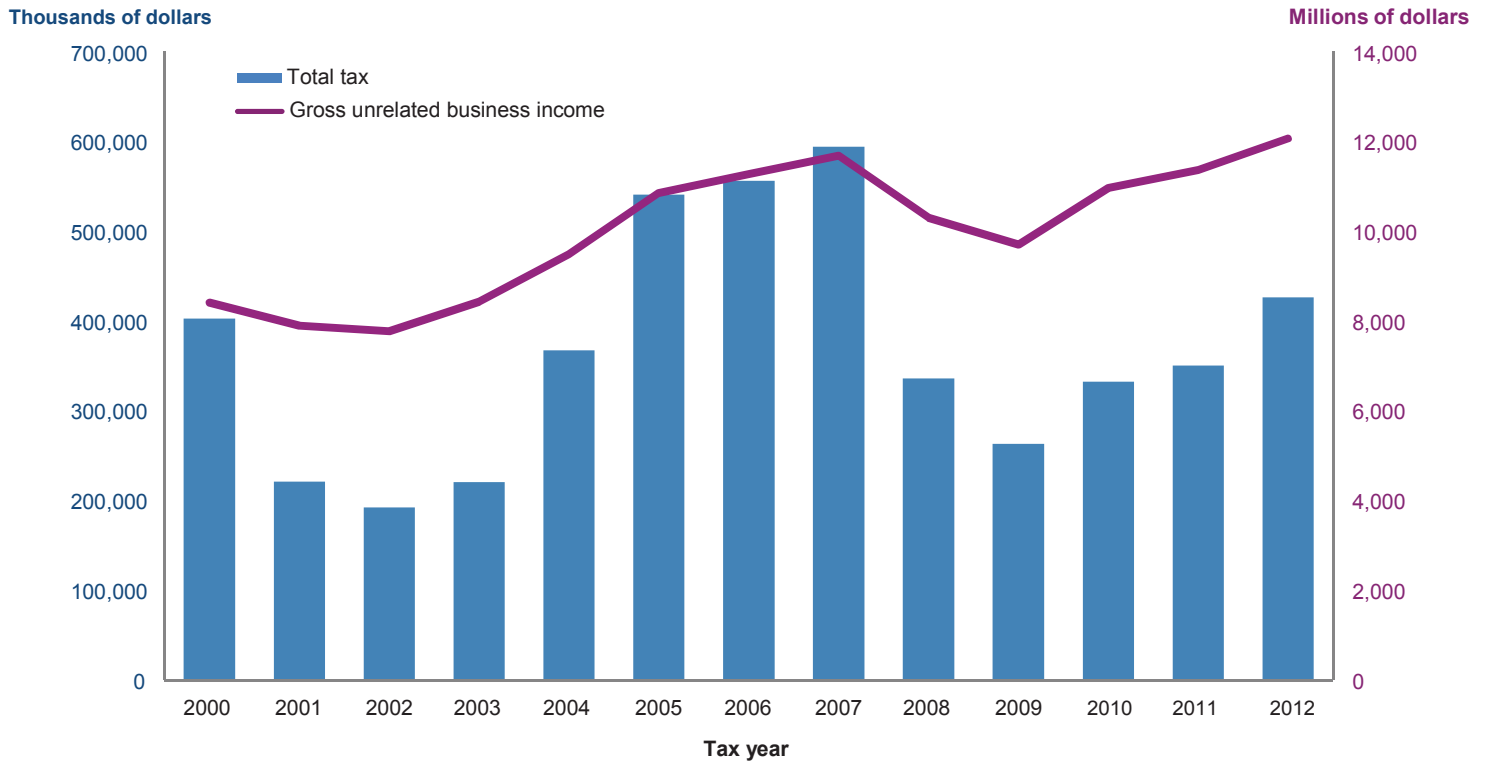
investments. For example, traditional IRAs reported more than 96 percent of their gross unrelated business income as investment income. Business leagues, chambers of commerce and real estate boards (which are exempt under section 501(c)(6)), and social and recreational clubs (exempt under section 501(c)(7)) would each represent 11 percent and thereby complete the list of top filed returns.

### Income Information, by Entity Type

A number of criteria, such as point of origination and membership status, contribute to a tax-exempt entity's choice of organizational structure. Organizations that hold funds in trust for beneficiaries are typically organized as trusts. For example, a Voluntary Employee Beneficiary Association (VEBA), exempt under Internal Revenue Code section 501(c)(9), provides a variety of supplemental employee benefits such as health, life, or

<sup>3</sup> Most tax-exempt organizations with receipts more than \$50,000 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 \$500,000 and total end-of-year assets of less than \$200,000). Private foundations, which are exempt under section 501(c)(3), file the information return Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Charitable remainder trusts, a type of Internal Revenue Code section 4947(a)(2) "split-interest trust," were required to report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T, for tax years before 2007. Beginning with Tax Year 2007, charitable remainder trusts were required to report unrelated business income on Form 4720, *Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code*. 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 Website at <http://www.irs.gov/taxstats> and are also available on the site in a "snapshot" page that provides data highlights and products.

**Figure B**  
**Unrelated Business Income (UBI) Tax Returns: Gross Unrelated Business Income and Total Tax, Tax Years 2000–2012**



SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.

accident insurance. However, for most groups, a corporate organizational structure is more beneficial, because it offers features such as liability protection and lower tax rates.

Generally, organizations are taxed based upon their structures, and tax-exempt organizations' unrelated business taxable income is subject to the same tax rates as income reported by for-profit filers with similar organizational structures. Those organizations classified as tax-exempt trusts pay taxes on their unrelated business income at the same rates as estate and trust filers, while all other exempt organizations classified as non-profit corporations pay taxes at the corporate rate. Tax-exempt organizations that paid taxes at the corporate rate accounted for nearly 73 percent of all Forms 990-T filed for Tax Year 2012, with tax-exempt trusts accounting for the balance. Traditional

business taxable income, and unrelated business income tax. For Tax Year 2012, corporate filers reported a modest 4 percent increase in gross unrelated business income to \$10.7 billion, \$11.0 billion in total deductions, and \$279.0 million in unrelated business income tax. Trust filers reported a more significant increase of 32 percent in gross unrelated business income. Investment income represented 90 percent of gross unrelated income reported by trusts, compared to less than 12 percent for corporations (Figure G). Of the \$2.5 billion in investment income reported for Tax Year 2012, corporate filers reported the majority, \$1.3 billion. The \$1.2 billion in investment income reported by trusts represents an increase of 33 percent over the previous year.

### Data Sources and Limitations

For trusts, as defined in Internal Revenue Code sections 220(e), 401(a), 408(e), 408A, and 530(a), the required reporting period for unrelated business income of \$1,000 (the filing threshold) or more for Tax Year 2012 was Calendar Year 2012, and the Form 990-T filing deadline was April 15, 2013. For all other organizations filing full-year returns, the required reporting period was any accounting period beginning in Calendar Year 2012 and, thus, ending between December 2012 and November 2013. The associated required due dates for filing Tax Year 2012 Forms 990-T generally fell between May 2013 and April 2014, but the IRS routinely granted filing extensions beyond this period to

**Both the total number of Forms 990-T returns filed and the number of 501(c)(3) returns filed have fluctuated in recent years.**

IRAs, voluntary employees' beneficiary associations, pensions, profit-sharing, and stock bonus plans accounted for more than 81 percent of the 13,455 tax-exempt trusts that filed Form 990-T.

Generally, corporate filers report the majority of gross unrelated business income, total deductions, positive unrelated

Figure C

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)                                                                                                                                                                                                                 | 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)                                                                                                                                                                                                      | Fiduciary agent for retirement funds                                                                                                                                                   |
| 408A         | Roth Individual Retirement Accounts (IRA)                                                                                                                                                                                                             | Fiduciary agent for retirement funds; subject to same rules as traditional IRA, 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                                                                                                                    |
| (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                                                                                                                                         |

Footnotes at end of figure.

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

|        |                                                                                                                                            |                                                                                                                                                                                                                                         |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (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                                        |
| (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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.

**Figure D**  
**Unrelated Business Income (UBI) Tax Returns: Form 990-T Filers, by Size of Gross Unrelated Business Income, Gross Unrelated Business Taxable Income, Type of Entity, and Type of Organization, Tax Years 2011 and 2012**

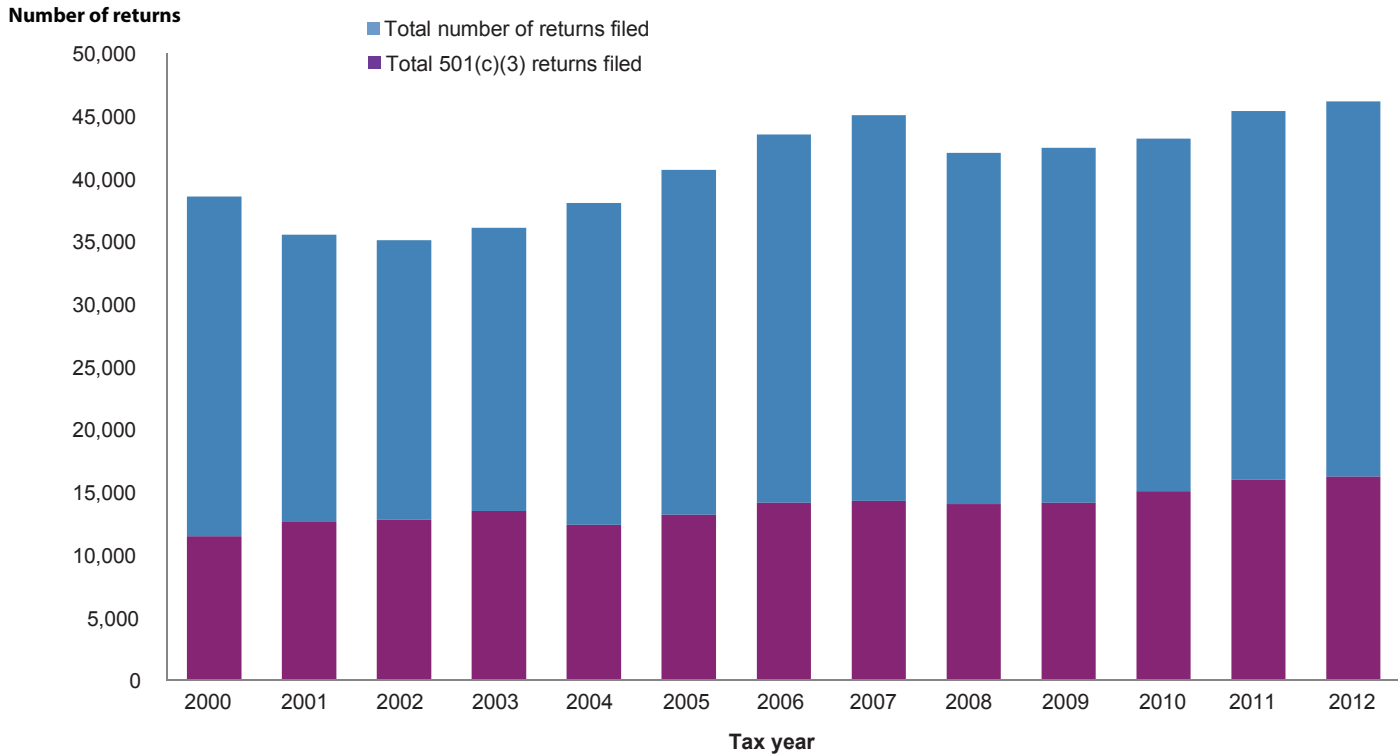
| Category                                                            | Item                                                                                | 2011              |                     | 2012              |                     | 2011 to 2012 number of returns, percentage change |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------|---------------------|-------------------|---------------------|---------------------------------------------------|
|                                                                     |                                                                                     | Number of returns | Percentage of total | Number of returns | Percentage of total |                                                   |
|                                                                     |                                                                                     | (1)               | (2)                 | (3)               | (4)                 | (5)                                               |
| <b>All Forms 990-T</b>                                              | <b>All returns</b>                                                                  | <b>45,384</b>     | <b>100.00</b>       | <b>46,168</b>     | <b>100.00</b>       | <b>1.7</b>                                        |
| <b>Type of organization</b>                                         | <b>All returns, by type of organization</b>                                         | <b>45,384</b>     | <b>100.0</b>        | <b>46,168</b>     | <b>100.0</b>        | <b>1.7</b>                                        |
|                                                                     | 501(c)(3) Religious, educational, charitable, scientific, or literary organizations | 15,981            | 35.2                | 16,261            | 35.2                | 1.8                                               |
|                                                                     | 501(c)(4) Civic leagues and social welfare organizations                            | 1,626             | 3.6                 | 1,366             | 3.0                 | -16.0                                             |
|                                                                     | 501(c)(5) Labor, agricultural, and horticultural organizations                      | 1,934             | 4.3                 | 1,495             | 3.2                 | -22.7                                             |
|                                                                     | 501(c)(6) Business leagues, chambers of commerce, and real estate boards            | 5,057             | 11.1                | 5,033             | 10.9                | -0.5                                              |
|                                                                     | 501(c)(7) Social and recreational clubs                                             | 5,584             | 12.3                | 4,978             | 10.8                | -10.9                                             |
|                                                                     | 501(c)(19) War veterans' posts or organizations                                     | 1,601             | 3.5                 | 1,643             | 3.6                 | 2.6                                               |
|                                                                     | 408(e) Traditional Individual Retirement Accounts                                   | 9,364             | 20.6                | 10,872            | 23.5                | 16.1                                              |
|                                                                     | Other [1]                                                                           | 4,237             | 9.3                 | 4,520             | 9.8                 | 6.7                                               |
| <b>Type of entity</b>                                               | <b>All returns, by type of entity</b>                                               | <b>45,384</b>     | <b>100.0</b>        | <b>46,168</b>     | <b>100.0</b>        | <b>1.7</b>                                        |
|                                                                     | Corporation                                                                         | 32,172            | 70.9                | 32,712            | 70.9                | 1.7                                               |
|                                                                     | Trust                                                                               | 13,212            | 29.1                | 13,456            | 29.1                | 1.8                                               |
| <b>Size of gross unrelated business income</b>                      | <b>All returns, by size of gross unrelated business income</b>                      | <b>45,384</b>     | <b>100.0</b>        | <b>46,168</b>     | <b>100.0</b>        | <b>1.7</b>                                        |
|                                                                     | With gross unrelated business income of \$10,000 or less                            | 21,103            | 46.5                | 21,520            | 46.6                | 2.0                                               |
|                                                                     | With gross unrelated business income over \$10,000                                  | 24,281            | 53.5                | 24,648            | 53.4                | 1.5                                               |
| <b>Presence of unrelated business taxable income (less deficit)</b> | <b>All returns, with and without unrelated business taxable income</b>              | <b>45,384</b>     | <b>100.0</b>        | <b>46,168</b>     | <b>100.0</b>        | <b>1.7</b>                                        |
|                                                                     | With unrelated business taxable income                                              | 21,660            | 47.7                | 22,727            | 49.2                | 4.9                                               |
|                                                                     | Without unrelated business taxable income                                           | 23,724            | 52.3                | 23,441            | 50.8                | -1.2                                              |

[1] This category includes organizations described under sections 501(c)(2), 501(c)(8)-(18), 501(c)(21)-(27), as well as Archer Medical Savings Accounts, exempt under section 220(e); qualified pension, profit-sharing, or stock bonus plans, exempt under section 401(a); Roth Individual Retirement Arrangements, exempt under section 408A; state-sponsored qualified tuition plans, exempt under section 529(a); and Coverdell Education Savings Accounts, exempt under section 530(a). See Figure C for additional information on the types of organizations that are required to file Form 990-T.

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 and unrelated business taxable income (less deficit).

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.

**Figure E**  
**Unrelated Business Income (UBI) Tax Returns: Number of Returns Filed and Number of 501 (c)(3) Returns Filed**



SOURCE: IRS, Statistics of Income Division, Tax -Exempt Organizations, Unrelated Business Income, March 2015.

**Figure F**  
**Unrelated Business Income (UBI) Tax Returns: Selected Items for Unrelated Business Income Tax of Tax-Exempt Organizations, by Subsection Code, Tax Year 2012**

[Money amounts are in thousands of dollars]

| Item                                             | Subsection code |           |           |           |           |           |            |        |           |
|--------------------------------------------------|-----------------|-----------|-----------|-----------|-----------|-----------|------------|--------|-----------|
|                                                  | All             | 501(c)(3) | 501(c)(4) | 501(c)(5) | 501(c)(6) | 501(c)(7) | 501(c)(19) | 408(e) | Other [1] |
|                                                  | (1)             | (2)       | (3)       | (4)       | (5)       | (6)       | (7)        | (8)    | (9)       |
| Number of returns                                | 46,168          | 16,261    | 1,366     | 1,495     | 5,033     | 4,978     | 1,643      | 10,872 | 4,520     |
| Gross unrelated business income (UBI)            | 12,066,356      | 7,961,514 | 625,652   | 229,750   | 945,458   | 678,291   | 179,190    | 98,422 | 1,348,079 |
| Total investment income [2]                      | 2,537,573       | 1,430,566 | 16,924    | 22,627    | 81,210    | 61,288    | 6,768      | 95,025 | 823,165   |
| Investment income to gross UBI (percentage)      | 21.0            | 18.0      | 2.7       | 9.8       | 8.6       | 9.0       | 3.8        | 96.5   | 61.1      |
| Total deductions                                 | 11,703,675      | 7,970,019 | 625,665   | 220,793   | 995,176   | 623,622   | 178,360    | 33,779 | 1,056,261 |
| Unrelated business taxable income (less deficit) | 362,681         | -8,505    | -13       | 8,957     | -49,717   | 54,669    | 830        | 64,643 | 291,817   |
| Unrelated business taxable income                | 1,584,782       | 855,717   | 20,897    | 24,229    | 79,573    | 85,031    | 9,951      | 65,816 | 443,568   |
| Deficit                                          | 1,222,101       | 864,222   | 20,910    | 15,272    | 129,290   | 30,362    | 9,121      | 1,173  | 151,751   |
| Unrelated business income tax                    | 428,918         | 247,677   | 5,947     | 6,074     | 22,282    | 23,509    | 2,097      | 18,522 | 102,811   |
| Total tax                                        | 426,272         | 236,963   | 5,672     | 5,968     | 23,822    | 22,924    | 2,054      | 18,866 | 110,003   |

[1] This category includes organizations described under sections 501(c)(2), 501(c)(8)-(18), 501(c)(21)-(27), as well as Archer Medical Savings Accounts, exempt under section 220(e); qualified pension, profit-sharing, or stock bonus plans, exempt under section 401(a); Roth Individual Retirement Arrangements, exempt under section 408A; state-sponsored qualified tuition plans, exempt under section 529(a); and Coverdell Education Savings Accounts, exempt under section 530(a). See Figure C for additional information on the types of organizations that are required to file Form 990-T.

[2] Total investment income includes net capital gain 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 tax-exempt organizations' investment income ordinarily are not taxed, unless the investments were purchased with borrowed funds, i.e., debt-financed.

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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.

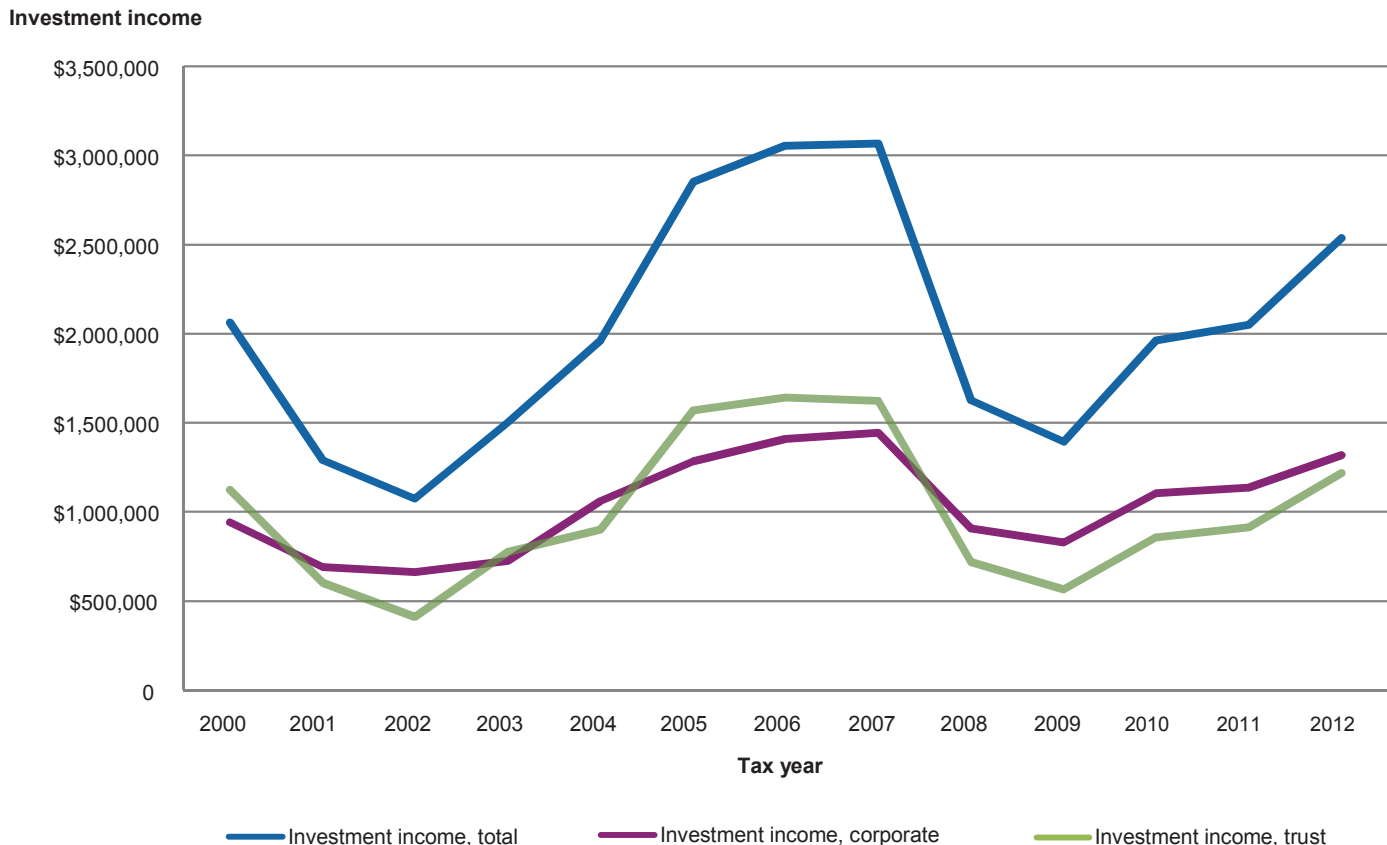
many organizations. Corresponding to the required filing dates, the SOI Tax Year 2012 study sample was drawn from Forms 990-T processed by the IRS throughout Calendar Years 2012 and 2013. Because of the various accounting periods reported by organizations filing a Tax Year 2012 return, the financial activities covered in this article span the period January 2012 through November 2013, although 55 percent of Form 990-T filers had Calendar Year 2012 accounting periods.

SOI drew on the population of Forms 990-T for the sample from Tax Year 2012 records posted to the IRS Business Master File system during 2012 and 2013. Generally, SOI excluded returns filed after Calendar Year 2013 from the sample. However, in some cases, SOI added large income-size case returns (over \$500,000 or more of gross unrelated business income) filed after the sampling period closed, before selecting a sample of 7,794 returns from a population of 46,496. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 7,730 returns, and the estimated population size was 46,168. Rejected returns included those that had gross unrelated business income less than the \$1,000 filing threshold; were filed for a part-year 2012 accounting period and a full-year 2012 return was also filed; or were filed for a part-year accounting period that began in a year other than 2012.

The 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. SOI designed the stratified random sample to represent the entire population of Form 990-T filers reporting unrelated business income. It designed the integrated sample to gather information on “related” (tax-exempt) and “unrelated” (taxable) income and expenses for IRC section 501(c)(3) nonprofit charitable organizations that filed both Form 990 (or Form 990-EZ) 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 unrelated business income 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 unrelated business income, and selected using Bernoulli sampling, with sample rates ranging from 3.65 percent to 100 percent. IRC section 501(c)(3) returns not selected randomly were then matched to returns in the Forms 990/990-EZ sample. These linked returns, along with any randomly

**Figure G**  
**Investment Income for Tax-Exempt Corporate and Trust Entities, Tax Years 2000–2012**



SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, March 2015.



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.<sup>4</sup>

SOI obtained the information presented in this article from returns as originally filed with the Internal Revenue Service. 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 IRS. Changes in tax liability assessments can be made after the original return is filed—by the taxpayer on an amended return, by the IRS after examination, or through litigation. 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. To use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation

(CV), should be taken into account. Figure H shows CVs for selected financial data estimates derived from the Form 990-T stratified random sample. A discussion of the reliability of estimates based on samples, as well as of methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates, can be found in SOI Sampling Methodology and Data Limitations, at [www.irs.gov/uac/SOI-Tax-Stats-Statistical-Methodology](http://www.irs.gov/uac/SOI-Tax-Stats-Statistical-Methodology).

**Explanation of Selected Terms**

This section provides definitions to help the reader understand the terms contained in the article and in Tables 1 through 8 at the end of this article. In some of the following explanations, tax-exempt organizations are cited by the Internal Revenue Code section under which they are described. Figure C shows the various types of tax-exempt organizations subject to the unrelated business income tax provisions.

*Charitable contributions*—To the extent permissible under the Internal Revenue Code, a deduction was allowed for

**Figure H**

**Unrelated Business Income Tax Returns: Coefficients of Variation by Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2012**

[Coefficients of variation are in percentages]

| Type of tax-exempt organization, as defined by Internal Revenue Code section        | Number of returns | Gross unrelated business income (UBI) | Total deductions  |             | Unrelated business taxable income (less deficit) |             | Unrelated business taxable income [1] |             | Total tax         |             |
|-------------------------------------------------------------------------------------|-------------------|---------------------------------------|-------------------|-------------|--------------------------------------------------|-------------|---------------------------------------|-------------|-------------------|-------------|
|                                                                                     |                   |                                       | 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)        |
| <b>All organizations</b>                                                            | <b>0.15</b>       | <b>0.20</b>                           | <b>0.15</b>       | <b>0.37</b> | <b>0.19</b>                                      | <b>9.84</b> | <b>0.31</b>                           | <b>0.89</b> | <b>0.31</b>       | <b>0.92</b> |
| 501(c)(2) Title-holding corporations for exempt organizations [2]                   | 28.86             | 11.31                                 | 28.86             | 12.25       | 31.12                                            | 203.15      | 41.94                                 | 12.58       | 41.95             | 6.57        |
| 501(c)(3) Religious, educational, charitable, scientific, or literary organizations | 2.58              | 0.32                                  | 2.58              | 0.48        | 2.99                                             | 306.48      | 4.51                                  | 0.99        | 4.43              | 0.97        |
| 501(c)(4) Civic leagues and social welfare organizations                            | 11.58             | 1.62                                  | 11.58             | 1.70        | 13.46                                            | *           | 19.50                                 | 10.67       | 19.46             | 7.62        |
| 501(c)(5) Labor, agricultural, and horticultural organizations                      | 11.49             | 4.19                                  | 11.49             | 4.32        | 12.59                                            | 30.27       | 17.14                                 | 8.32        | 17.12             | 5.42        |
| 501(c)(6) Business leagues, chambers of commerce, and real estate boards            | 6.22              | 1.86                                  | 6.24              | 2.02        | 7.53                                             | 20.69       | 11.03                                 | 5.09        | 10.77             | 4.31        |
| 501(c)(7) Social and recreational clubs                                             | 6.23              | 2.75                                  | 6.27              | 3.06        | 7.22                                             | 12.69       | 8.91                                  | 6.28        | 9.28              | 6.30        |
| 501(c)(8) Fraternal beneficiary societies and associations                          | 15.10             | 7.83                                  | 15.10             | 9.10        | 17.96                                            | 105.32      | 25.11                                 | 12.30       | 25.88             | 8.07        |
| 501(c)(9) Voluntary employees' beneficiary associations                             | 16.94             | 1.18                                  | 16.99             | 1.93        | 19.67                                            | 1.58        | 20.54                                 | 1.48        | 20.45             | 1.70        |
| 501(c)(10) Domestic fraternal beneficiary societies and associations                | 40.36             | 15.28                                 | 40.36             | 18.73       | 49.12                                            | 48.60       | 38.76                                 | 0.00        | 37.99             | 0.00        |
| 401(a) Qualified pension, profit-sharing, or stock bonus plans                      | 15.82             | 2.29                                  | 15.82             | 6.47        | 17.54                                            | 20.38       | 19.07                                 | 5.02        | 18.57             | 4.64        |
| 408(e) Traditional Individual Retirement Accounts                                   | 4.13              | 7.81                                  | 4.12              | 10.67       | 4.52                                             | 9.96        | 4.09                                  | 9.75        | 4.20              | 10.38       |
| Other [3]                                                                           | 7.51              | 2.61                                  | 7.50              | 3.16        | 8.31                                             | 18.09       | 13.59                                 | 7.85        | 13.70             | 6.97        |

\*Estimate is not precise because denominator is relatively small due to positive and negative amounts.  
 [1] Includes data from returns with positive amounts of unrelated business taxable income only.  
 [2] 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.  
 [3] This category includes organizations described under sections 501(c)(11)-(19), 501(c)(21)-(27), as well as Archer Medical Savings Accounts, exempt under section 220(e); Roth Individual Retirement Accounts, exempt under section 408A; State-sponsored qualified tuition plans, exempt under section 529(a); and Coverdell Education Savings Accounts, exempt under section 530(a).  
 NOTE: For more complete descriptions of the types of tax-exempt organizations filing Form 990-T, by the Internal Revenue Code section describing them, see Figure C of this article.  
 SOURCE: IRS, Statistics of Income Division, Tax Exempt Organizations, Unrelated Business Income, October 2016.

<sup>4</sup> For additional information on the Forms 990 and 990-T integrated sample design, see James M. Harte and Cecelia H. Hilgert, “Enriching One Sample While Improving Another: Linking Differently Stratified Samples of Documents Filed by Exempt Organizations,” *Statistics of Income: Compendium of Studies of Tax-Exempt Organizations, 1989-1998*, 2002.

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 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, with this exception: the limit on the deduction was determined in relation to unrelated business taxable income 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 understated. Cost of sales and services was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income.

*Gross unrelated business income*—This was the total gross unrelated business income, prior to reduction by allowable deductions, that was used in computing unrelated business taxable income. All organizations were required to report detailed sources of gross unrelated business income. The components of gross unrelated business income included: gross profit (less loss) from sales and services; capital gain net income; net gain (less loss) from sales of noncapital assets; net capital loss deduction (trusts only); and income (less loss) from partnerships and S corporations. It also included: rental income; unrelated debt-financed income; investment income (less loss) of Internal Revenue Code sections 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).

A tax-exempt organization’s income was treated as unrelated business income if it came 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 the organization’s need for 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. Soliciting, selling, or publishing commercial advertising, for example, 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.

*Investment income (less loss)*—Only organizations exempt under Internal Revenue Code sections 501(c)(7), (9), and (17) reported this income. Investment income (less loss) included income such 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. All gross rents (except those that were exempt-function income) from investment property of sections 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.

*Other deductions*—This included all types of unrelated business deductions that the organization was not specifically required to report 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 the organization was not specifically required to report 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 under one of two conditions: 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.

*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 under one of two conditions: 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.

**Total deductions**—Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded the costs of sales and services, which the organization subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services. (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, and 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 works from the collections of other art museums. In addition, the museum sells souvenir items of the city where the museum is located. The sale of the reproductions, regardless of which museum houses the original works, is considered to be "related" because it contributes importantly to the achievement of the museum's exempt educational purpose: it makes 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**—See definition of Gross unrelated business income.

**Unrelated business income tax**—This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for the 2010 Tax Year, 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 | —             | 35%             | 0                   |

**Tax Rates for Trusts**

Amount of unrelated business taxable income is:

| Over—  | But not over— | Tax is:        | Of the amount over— |
|--------|---------------|----------------|---------------------|
| \$ 0   | \$2,400       | + 15%          | \$ 0                |
| 2,400  | 5,600         | \$360 + 25%    | 2,400               |
| 5,600  | 8,500         | 1,160.00 + 28% | 5,600               |
| 8,500  | 11,650        | 1,972.00 + 33% | 8,500               |
| 11,650 | —             | 3,011.50 + 35% | 11,650              |

**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.

*Jael Jackson is an economist with the Tax-Exempt and Estate Tax Section. This article was prepared under the direction of Blaire Crowley, Acting Chief.*

**Table 1. Unrelated Business Income (UBI) Tax Returns: Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2012**

[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 | 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)           |
| <b>All organizations</b>                                                            | <b>46,168</b>     | <b>12,066,356</b>               | <b>45,939</b>          | <b>11,703,675</b> | <b>35,523</b>                                        | <b>362,681</b> | <b>22,727</b>                         | <b>1,584,782</b> | <b>22,262</b>     | <b>426,272</b> |
| 220(e) Archer Medical Savings Accounts                                              | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| 401(a) Qualified pension, profit-sharing, or stock bonus plans                      | 821               | 334,904                         | 821                    | 259,026           | 691                                                  | 75,878         | 579                                   | 106,164          | 595               | 35,054         |
| 408(e) Traditional Individual Retirement Accounts                                   | 10,872            | 98,422                          | 10,872                 | 33,779            | 8,822                                                | 64,643         | 8,512                                 | 65,816           | 8,132             | 18,866         |
| 408(A) Roth Individual Retirement Accounts                                          | 284               | 10,462                          | 284                    | 1,192             | 219                                                  | 9,270          | 156                                   | 9,310            | 156               | 2,463          |
| 501(c)(2) Title-holding corporations for exempt organizations [6]                   | 275               | 36,013                          | 275                    | 36,574            | 235                                                  | -561           | 157                                   | 3,704            | 157               | 1,064          |
| 501(c)(3) Religious, educational, charitable, scientific, or literary organizations | 16,261            | 7,961,514                       | 16,133                 | 7,970,019         | 12,257                                               | -8,505         | 6,368                                 | 855,717          | 6,427             | 236,963        |
| 501(c)(4) Civic leagues and social welfare organizations                            | 1,366             | 625,652                         | 1,366                  | 625,665           | 977                                                  | -13            | 434                                   | 20,897           | 435               | 5,672          |
| 501(c)(5) Labor, agricultural, and horticultural organizations                      | 1,495             | 229,750                         | 1,495                  | 220,793           | 1,245                                                | 8,957          | 653                                   | 24,229           | 654               | 5,968          |
| 501(c)(6) Business leagues, chambers of commerce, and real estate boards            | 5,033             | 945,458                         | 5,001                  | 995,176           | 3,465                                                | -49,717        | 1,609                                 | 79,573           | 1,692             | 23,822         |
| 501(c)(7) Social and recreational clubs                                             | 4,978             | 678,291                         | 4,909                  | 623,622           | 3,849                                                | 54,669         | 2,621                                 | 85,031           | 2,438             | 22,924         |
| 501(c)(8) Fraternal beneficiary societies and associations                          | 1,029             | 88,216                          | 1,029                  | 85,640            | 730                                                  | 2,576          | 398                                   | 9,314            | 367               | 2,246          |
| 501(c)(9) Voluntary employees' beneficiary associations                             | 374               | 487,803                         | 373                    | 211,855           | 308                                                  | 275,948        | 253                                   | 282,488          | 254               | 59,442         |
| 501(c)(10) Domestic fraternal beneficiary societies and associations                | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| 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      | 323               | 64,359                          | 323                    | 65,654            | 237                                                  | -1,295         | 141                                   | 8,603            | 141               | 2,545          |
| 501(c)(13) Cemetery companies                                                       | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| 501(c)(14) State-chartered credit unions                                            | 1,199             | 300,974                         | 1,199                  | 364,804           | 1,092                                                | -63,830        | 236                                   | 21,758           | 236               | 6,554          |
| 501(c)(15) Mutual insurance companies                                               | 0                 | 0                               | 0                      | 0                 | 0                                                    | 0              | 0                                     | 0                | 0                 | 0              |
| 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                                           | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| 501(c)(19) War veterans' posts or organizations                                     | 1,643             | 179,190                         | 1,643                  | 178,360           | 1,215                                                | 830            | 492                                   | 9,951            | 460               | 2,054          |
| 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              |
| 501(c)(23) Veterans' associations founded before 1880                               | 0                 | 0                               | 0                      | 0                 | 0                                                    | 0              | 0                                     | 0                | 0                 | 0              |

Footnotes at end of table.

**Table 1. Unrelated Business Income (UBI) Tax Returns: Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2012—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 | 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)(24) Trusts described in section 4049 of ERISA                         | d                 | d                               | d                      | d      | d                                                    | d      | d                                     | d      | d                 | d      |
| 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                           | 0                 | 0                               | 0                      | 0      | 0                                                    | 0      | 0                                     | 0      | 0                 | 0      |
| 529(a) Qualified State tuition plans                                         | d                 | d                               | d                      | d      | d                                                    | d      | d                                     | d      | d                 | d      |
| 530(a) Coverdell Education Savings Accounts                                  | d                 | d                               | d                      | d      | d                                                    | d      | d                                     | d      | d                 | d      |

d—Data deleted to avoid disclosure of information for specific taxpayers. However, data are included in 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 10,645 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 \$1.5 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. For more complete descriptions of the types of tax-exempt organizations filing Form 990-T, by the Internal Revenue Code section describing them, see the Appendix to the most recent Unrelated Business Income Tax (UBIT) article listed under Publications and Papers on the Exempt Organizations' UBIT Statistics page of the IRS Web site ([http://www.irs.gov/uac/SOI-Tax-Stats-Exempt-Organizations-Unrelated-Business-Income-\(UBI\)-Tax-Statistics](http://www.irs.gov/uac/SOI-Tax-Stats-Exempt-Organizations-Unrelated-Business-Income-(UBI)-Tax-Statistics)).

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 2. Unrelated Business Income (UBI) Tax Returns: Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2012**

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

| Size of gross unrelated business income | Number of returns | Gross unrelated business income | 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)           |
| <b>Total</b>                            | <b>46,168</b>     | <b>12,066,356</b>               | <b>45,939</b>          | <b>11,703,675</b> | <b>35,523</b>                                        | <b>362,681</b> | <b>22,727</b>                         | <b>1,584,782</b> | <b>22,262</b>     | <b>426,272</b> |
| \$1,000 under \$10,001 [6]              | 21,520            | 79,189                          | 21,330                 | 78,029            | 16,134                                               | 1,160          | 12,672                                | 22,938           | 12,100            | 4,095          |
| \$10,001 under \$100,000                | 14,734            | 622,481                         | 14,702                 | 680,590           | 11,819                                               | -58,109        | 6,204                                 | 122,116          | 6,233             | 23,892         |
| \$100,000 under \$500,000               | 6,502             | 1,614,348                       | 6,496                  | 1,636,283         | 5,005                                                | -21,935        | 2,470                                 | 205,623          | 2,447             | 53,296         |
| \$500,000 under \$1,000,000             | 1,577             | 1,096,364                       | 1,577                  | 1,064,988         | 1,194                                                | 31,377         | 641                                   | 136,610          | 640               | 40,365         |
| \$1,000,000 under \$5,000,000           | 1,458             | 3,048,722                       | 1,457                  | 2,868,939         | 1,071                                                | 179,784        | 581                                   | 417,021          | 645               | 126,948        |
| \$5,000,000 or more                     | 376               | 5,605,251                       | 376                    | 5,374,846         | 300                                                  | 230,405        | 159                                   | 680,474          | 197               | 177,676        |

[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 10,645 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 \$1.5 million.

[6] The gross unrelated business income (UBI) brackets of "\$1,000 under \$10,001" and "all others" 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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 3. Unrelated Business Income (UBI) Tax Returns: Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income (Less Deficit), and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2012**

[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 | Total deductions [1,2] |                   | Unrelated business taxable income (less deficit) |                | Total tax [3]     |                |
|------------------------------------------------------|-------------------|---------------------------------|------------------------|-------------------|--------------------------------------------------|----------------|-------------------|----------------|
|                                                      |                   |                                 | Number of returns      | Amount            | Number of returns                                | Amount         | Number of returns | Amount         |
|                                                      | (1)               | (2)                             | (3)                    | (4)               | (5)                                              | (6)            | (7)               | (8)            |
| <b>Total</b>                                         | <b>46,168</b>     | <b>12,066,356</b>               | <b>45,939</b>          | <b>11,703,675</b> | <b>35,523</b>                                    | <b>362,681</b> | <b>22,262</b>     | <b>426,272</b> |
| Deficit                                              | 12,796            | 4,600,039                       | 12,796                 | 5,822,141         | 12,796                                           | -1,222,101     | 57                | 2,365          |
| Zero [4]                                             | 10,645            | 2,536,481                       | 10,645                 | 2,536,481         | 0                                                | 0              | 250               | 9,940          |
| \$1 under \$1,000                                    | 6,606             | 61,981                          | 6,606                  | 59,181            | 6,606                                            | 2,801          | 6,180             | 503            |
| \$1,000 under \$10,000                               | 9,154             | 337,193                         | 8,963                  | 302,831           | 9,154                                            | 34,362         | 8,875             | 5,502          |
| \$10,000 under \$100,000                             | 5,356             | 897,424                         | 5,324                  | 715,463           | 5,356                                            | 181,961        | 5,300             | 35,213         |
| \$100,000 under \$500,000                            | 1,109             | 1,070,657                       | 1,103                  | 818,245           | 1,109                                            | 252,412        | 1,100             | 74,815         |
| \$500,000 under \$1,000,000                          | 240               | 570,944                         | 240                    | 404,152           | 240                                              | 166,792        | 240               | 52,769         |
| \$1,000,000 or more                                  | 263               | 1,991,636                       | 262                    | 1,045,182         | 263                                              | 946,454        | 261               | 245,165        |

[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 \$1.5 million.

[4] The Zero category includes 10,645 returns with equal amounts of gross unrelated business income and total deductions.

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

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 4. Unrelated Business Income (UBI) Tax Returns: Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income, Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2012**

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

| Type of entity and size of gross unrelated business income | Number of returns | Gross unrelated business income | 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)            |
| <b>ALL ENTITIES</b>                                        |                   |                                 |                        |                  |                                   |                   |                |
| <b>Total</b>                                               | <b>22,727</b>     | <b>4,929,836</b>                | <b>22,498</b>          | <b>3,345,054</b> | <b>1,584,782</b>                  | <b>21,955</b>     | <b>413,966</b> |
| \$1,000 under \$10,001 [4]                                 | 12,672            | 42,476                          | 12,482                 | 19,538           | 22,938                            | 12,032            | 3,746          |
| \$10,001 under \$100,000                                   | 6,204             | 259,469                         | 6,173                  | 137,353          | 122,116                           | 6,172             | 23,877         |
| \$100,000 under \$500,000                                  | 2,470             | 618,180                         | 2,463                  | 412,557          | 205,623                           | 2,404             | 53,012         |
| \$500,000 under \$1,000,000                                | 641               | 443,126                         | 641                    | 306,516          | 136,610                           | 622               | 40,262         |
| \$1,000,000 under \$5,000,000                              | 581               | 1,191,833                       | 580                    | 774,812          | 417,021                           | 571               | 124,624        |
| \$5,000,000 or more                                        | 159               | 2,374,752                       | 159                    | 1,694,278        | 680,474                           | 155               | 168,446        |
| <b>TAX-EXEMPT CORPORATIONS</b>                             |                   |                                 |                        |                  |                                   |                   |                |
| <b>Total</b>                                               | <b>12,492</b>     | <b>3,959,781</b>                | <b>12,263</b>          | <b>3,042,679</b> | <b>917,102</b>                    | <b>12,103</b>     | <b>269,342</b> |
| \$1,000 under \$10,001 [4]                                 | 4,010             | 17,333                          | 3,819                  | 8,782            | 8,551                             | 3,751             | 1,250          |
| \$10,001 under \$100,000 [4]                               | 5,178             | 215,277                         | 5,146                  | 127,279          | 87,998                            | 5,145             | 13,871         |
| \$100,000 under \$500,000                                  | 2,139             | 533,421                         | 2,133                  | 391,252          | 142,169                           | 2,073             | 35,548         |
| \$500,000 under \$1,000,000                                | 560               | 384,139                         | 560                    | 295,962          | 88,177                            | 541               | 27,129         |
| \$1,000,000 under \$5,000,000                              | 487               | 996,457                         | 486                    | 727,190          | 269,267                           | 477               | 87,699         |
| \$5,000,000 or more                                        | 119               | 1,813,155                       | 119                    | 1,492,215        | 320,939                           | 116               | 103,846        |
| <b>TAX-EXEMPT TRUSTS</b>                                   |                   |                                 |                        |                  |                                   |                   |                |
| <b>Total</b>                                               | <b>10,235</b>     | <b>970,055</b>                  | <b>10,235</b>          | <b>302,375</b>   | <b>667,680</b>                    | <b>9,852</b>      | <b>144,625</b> |
| \$1,000 under \$10,001 [4]                                 | 8,663             | 25,144                          | 8,663                  | 10,757           | 14,387                            | 8,281             | 2,496          |
| \$10,001 under \$100,000 [4]                               | 1,026             | 44,192                          | 1,026                  | 10,074           | 34,118                            | 1,026             | 10,006         |
| \$100,000 under \$500,000                                  | 331               | 84,759                          | 331                    | 21,305           | 63,454                            | 331               | 17,464         |
| \$500,000 under \$1,000,000                                | 81                | 58,987                          | 81                     | 10,554           | 48,433                            | 81                | 13,133         |
| \$1,000,000 under \$5,000,000                              | 94                | 195,376                         | 94                     | 47,622           | 147,754                           | 94                | 36,925         |
| \$5,000,000 or more                                        | 40                | 561,597                         | 40                     | 202,063          | 359,534                           | 39                | 64,600         |

[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. 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 \$10.3 million, 99 percent of which was attributable to tax-exempt corporations.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 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 \$1.5 million.

[4] The gross unrelated business income (UBI) brackets of "\$1,000 under \$10,001" and "all others" 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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 5. Unrelated Business Income (UBI) Tax Returns: Number of Returns, Gross Unrelated Business Income, 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 2012**

[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 | 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)           |
| <b>All activities and groupings</b>                                              | <b>46,168</b>     | <b>12,066,356</b>               | <b>45,939</b>          | <b>11,703,675</b> | <b>35,523</b>                                        | <b>362,681</b> | <b>22,727</b>                         | <b>1,584,782</b> | <b>22,262</b>     | <b>426,272</b> |
| Agriculture, forestry, hunting, and fishing                                      | 215               | 49,605                          | 215                    | 33,840            | 155                                                  | 15,766         | 57                                    | 22,570           | 57                | 6,954          |
| Mining                                                                           | 375               | 58,359                          | 375                    | 27,774            | 206                                                  | 30,585         | 201                                   | 32,671           | 200               | 6,551          |
| Utilities                                                                        | 60                | 14,795                          | 60                     | 13,214            | * 22                                                 | * 1,581        | * 15                                  | * 3,541          | * 15              | * 1,143        |
| Construction                                                                     | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| Manufacturing                                                                    | 201               | 53,180                          | 201                    | 38,445            | 192                                                  | 14,735         | 109                                   | 20,645           | 110               | 4,744          |
| Wholesale trade                                                                  | 73                | 74,511                          | 73                     | 44,725            | 73                                                   | 29,785         | 63                                    | 37,079           | 63                | 4,488          |
| Retail trade                                                                     | 1,621             | 999,466                         | 1,621                  | 1,047,224         | 1,283                                                | -47,758        | 461                                   | 54,847           | 464               | 17,288         |
| Transportation and warehousing                                                   | 51                | 6,178                           | 51                     | 6,000             | * 50                                                 | * 178          | * 39                                  | * 984            | * 40              | * 212          |
| Information                                                                      | 588               | 165,041                         | 588                    | 171,347           | 49                                                   | -6,306         | 174                                   | 12,817           | 176               | 3,954          |
| Finance and insurance, total                                                     | 16,433            | 2,708,307                       | 16,300                 | 2,296,655         | 13,373                                               | 411,652        | 11,659                                | 749,254          | 11,286            | 193,269        |
| Unrelated debt-financed activities, other than rental of real estate             | 952               | 191,662                         | 952                    | 130,204           | 801                                                  | 61,458         | 733                                   | 67,886           | 709               | 14,499         |
| Investment activities of Code section 501(c)(7), (9), and (17) organizations [6] | 2,127             | 605,898                         | 2,062                  | 321,994           | 1,619                                                | 283,904        | 1,449                                 | 286,766          | 1,396             | 60,522         |
| Passive income activities with controlled organizations                          | 425               | 240,928                         | 394                    | 205,362           | 384                                                  | 35,566         | 315                                   | 54,909           | 320               | 19,608         |
| Other finance and insurance                                                      | 12,929            | 1,669,819                       | 12,892                 | 1,639,095         | 10,569                                               | 30,724         | 9,162                                 | 339,693          | 8,861             | 98,640         |
| Real estate and rental and leasing, total                                        | 8,756             | 1,212,448                       | 8,725                  | 1,219,479         | 7,403                                                | -7,032         | 4,211                                 | 157,336          | 4,214             | 43,685         |
| Rental of personal property                                                      | 370               | 62,042                          | 339                    | 67,882            | 303                                                  | -5,840         | 176                                   | 7,085            | 180               | 1,961          |
| Other real estate and rental and leasing                                         | 8,386             | 1,150,406                       | 8,386                  | 1,151,597         | 7,100                                                | -1,192         | 4,035                                 | 150,251          | 4,034             | 41,724         |
| Professional, scientific, and technical services                                 | 7,959             | 2,169,373                       | 7,927                  | 2,216,284         | 5,178                                                | -46,910        | 2,297                                 | 142,285          | 2,322             | 42,884         |
| Management of companies and enterprises                                          | d                 | d                               | d                      | d                 | d                                                    | d              | d                                     | d                | d                 | d              |
| Administrative and support and waste management and remediation services         | 920               | 535,440                         | 920                    | 530,832           | 517                                                  | 4,608          | 205                                   | 42,571           | 185               | 14,149         |
| Educational services                                                             | 119               | 65,882                          | 119                    | 82,355            | 88                                                   | -16,473        | * 53                                  | * 271            | * 53              | * 41           |
| Health care and social assistance                                                | 1,103             | 1,852,967                       | 1,103                  | 1,813,301         | 872                                                  | 39,666         | 486                                   | 161,199          | 526               | 55,962         |
| Arts, entertainment, and recreation                                              | 3,799             | 1,056,644                       | 3,767                  | 1,127,242         | 2,595                                                | -70,598        | 1,259                                 | 37,819           | 1,209             | 9,211          |
| Accommodation and food services                                                  | 2,727             | 720,904                         | 2,727                  | 773,687           | 2,126                                                | -52,783        | 838                                   | 28,532           | 736               | 7,380          |
| Other services                                                                   | 666               | 107,450                         | 666                    | 110,772           | 593                                                  | -3,322         | 369                                   | 7,955            | 373               | 1,869          |
| Exploited exempt activities                                                      | 311               | 73,806                          | 311                    | 70,434            | 272                                                  | 3,373          | 136                                   | 6,854            | 136               | 1,974          |
| Other activity                                                                   | 121               | 26,340                          | 121                    | 11,646            | 88                                                   | 14,695         | 82                                    | 15,009           | 82                | 3,358          |
| Not allocable                                                                    | d                 | d                               | d                      | d                 | d                                                    | d              | 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 were deleted to prevent disclosure of individual taxpayer data. However, the 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 10,645 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 \$1.5 million.

[6] Section 501(c)(7) organizations are social and recreational clubs; section 501(c)(9) organizations are voluntary employees' beneficiary associations; and section 501(c)(17) organizations are supplemental unemployment benefit trusts. See Table 1 for separate data on each of these organizations.

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

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.



**Table 6. Unrelated Business Income (UBI) Tax Returns: Sources of Gross Unrelated Business Income, by Size of Gross UBI, Tax Year 2012**

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

| Size of gross unrelated business income | Gross unrelated business income |                   | Sources of gross unrelated business income (UBI) |                  |                         |                |                                |            |
|-----------------------------------------|---------------------------------|-------------------|--------------------------------------------------|------------------|-------------------------|----------------|--------------------------------|------------|
|                                         |                                 |                   | Gross profit (less loss) from sales and services |                  | Net capital gain income |                | Net capital loss (trusts only) |            |
|                                         | Number of returns               | Amount            | Number of returns                                | Amount           | Number of returns       | Amount         | Number of returns              | Amount     |
|                                         | (1)                             | (2)               | (3)                                              | (4)              | (5)                     | (6)            | (7)                            | (8)        |
| <b>Total</b>                            | <b>46,168</b>                   | <b>12,066,356</b> | <b>15,738</b>                                    | <b>6,964,222</b> | <b>2,558</b>            | <b>813,536</b> | <b>176</b>                     | <b>689</b> |
| \$1,000 under \$10,001 [1]              | 21,520                          | 79,189            | 3,458                                            | 14,933           | 1,206                   | 3,498          | ** 84                          | ** 251     |
| \$10,001 under \$100,000                | 14,734                          | 622,481           | 5,979                                            | 221,621          | 657                     | 36,553         | **                             | **         |
| \$100,000 under \$500,000               | 6,502                           | 1,614,348         | 4,010                                            | 873,093          | 291                     | 39,933         | 46                             | 207        |
| \$500,000 under \$1,000,000             | 1,577                           | 1,096,364         | 1,031                                            | 611,864          | 133                     | 54,401         | 14                             | 42         |
| \$1,000,000 under \$5,000,000           | 1,458                           | 3,048,722         | 989                                              | 1,743,858        | 185                     | 200,670        | 24                             | 167        |
| \$5,000,000 or more                     | 376                             | 5,605,251         | 270                                              | 3,498,853        | 86                      | 478,481        | * 7                            | * 21       |

| Size of gross unrelated business income | Sources of gross unrelated business income (UBI)—continued |               |                                                         |                |                   |                |                                |                |
|-----------------------------------------|------------------------------------------------------------|---------------|---------------------------------------------------------|----------------|-------------------|----------------|--------------------------------|----------------|
|                                         | Net gain (less loss), sales of noncapital assets [2]       |               | Income (less loss) from partnerships and S corporations |                | Rental income [3] |                | Unrelated debt-financed income |                |
|                                         | Number of returns                                          | Amount        | Number of returns                                       | Amount         | Number of returns | Amount         | Number of returns              | Amount         |
|                                         | (9)                                                        | (10)          | (11)                                                    | (12)           | (13)              | (14)           | (15)                           | (16)           |
| <b>Total</b>                            | <b>496</b>                                                 | <b>36,416</b> | <b>14,727</b>                                           | <b>701,695</b> | <b>4,982</b>      | <b>375,514</b> | <b>3,928</b>                   | <b>651,326</b> |
| \$1,000 under \$10,001 [1]              | 132                                                        | 401           | 10,863                                                  | 26,424         | 1,298             | 6,060          | 1,225                          | 6,288          |
| \$10,001 under \$100,000                | 117                                                        | -575          | 2,179                                                   | 33,205         | 2,492             | 83,921         | 1,736                          | 62,415         |
| \$100,000 under \$500,000               | 109                                                        | 2,718         | 801                                                     | 82,184         | 795               | 97,567         | 639                            | 118,586        |
| \$500,000 under \$1,000,000             | 44                                                         | 2,550         | 290                                                     | 59,592         | 188               | 53,236         | 133                            | 58,528         |
| \$1,000,000 under \$5,000,000           | 59                                                         | 12,620        | 407                                                     | 174,791        | 168               | 86,146         | 141                            | 133,762        |
| \$5,000,000 or more                     | 35                                                         | 18,702        | 186                                                     | 325,499        | 41                | 48,583         | 54                             | 271,747        |

| Size of gross unrelated business income | Sources of gross unrelated business income (UBI)—continued |                |                                          |                |                                                      |                |                    |                  |                          |                |
|-----------------------------------------|------------------------------------------------------------|----------------|------------------------------------------|----------------|------------------------------------------------------|----------------|--------------------|------------------|--------------------------|----------------|
|                                         | Investment income (less loss) [4]                          |                | Income from controlled organizations [5] |                | 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           | Number of returns        | Amount         |
|                                         | (17)                                                       | (18)           | (19)                                     | (20)           | (21)                                                 | (22)           | (23)               | (24)             | (25)                     | (26)           |
| <b>Total</b>                            | <b>3,447</b>                                               | <b>371,017</b> | <b>626</b>                               | <b>106,444</b> | <b>851</b>                                           | <b>245,973</b> | <b>7,411</b>       | <b>1,192,976</b> | <b>5,742</b>             | <b>607,926</b> |
| \$1,000 under \$10,001 [1]              | 1,523                                                      | 4,004          | 196                                      | 453            | ** 347                                               | ** 6,727       | 2,758              | 11,999           | 1,687                    | 4,672          |
| \$10,001 under \$100,000                | 788                                                        | 5,431          | 127                                      | 5,558          | **                                                   | **             | 2,829              | 113,610          | 2,334                    | 54,724         |
| \$100,000 under \$500,000               | 733                                                        | 31,361         | 137                                      | 15,829         | 295                                                  | 38,655         | 1,184              | 205,188          | 1,084                    | 109,442        |
| \$500,000 under \$1,000,000             | 240                                                        | 28,139         | 53                                       | 10,717         | 81                                                   | 27,278         | 305                | 132,514          | 269                      | 57,588         |
| \$1,000,000 under \$5,000,000           | 135                                                        | 130,461        | 80                                       | 31,803         | 103                                                  | 76,902         | 264                | 283,737          | 286                      | 174,141        |
| \$5,000,000 or more                     | 29                                                         | 171,621        | 33                                       | 42,084         | 25                                                   | 96,412         | 71                 | 445,929          | 82                       | 207,360        |

\*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] The gross unrelated business income (UBI) brackets of "\$1,000 under \$10,001" and all other brackets reflect the different filing requirements for organizations with gross UBI of \$10,000 or less (not required to report itemized expenses and deductions, except for the net operating loss deduction and the specific deduction, 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.

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

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

[4] 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. See Table 1 for separate data on each of these organizations.

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

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

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 7. Unrelated Business (UBI) Income Tax Returns: Types of Deductions, by Size of Gross Unrelated Business Income, Tax Year 2012**

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

| Item                                                                                           | Size of gross unrelated business income |                   |                            |               |                          |                |
|------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------|----------------------------|---------------|--------------------------|----------------|
|                                                                                                | Total                                   |                   | \$1,000 under \$10,001 [1] |               | \$10,001 under \$100,000 |                |
|                                                                                                | Number of returns                       | Amount            | Number of returns          | Amount        | Number of returns        | Amount         |
|                                                                                                | (1)                                     | (2)               | (3)                        | (4)           | (5)                      | (6)            |
| <b>Number of returns</b>                                                                       | <b>46,168</b>                           | <b>N/A</b>        | <b>21,520</b>              | <b>N/A</b>    | <b>14,734</b>            | <b>N/A</b>     |
| <b>Total deductions [2,3]</b>                                                                  | <b>45,939</b>                           | <b>11,703,675</b> | <b>21,330</b>              | <b>78,029</b> | <b>14,702</b>            | <b>680,590</b> |
| <b>Organizations with gross unrelated business income (UBI) of \$1,000 under \$10,001 [1]:</b> |                                         |                   |                            |               |                          |                |
| <b>Total deductions [4]</b>                                                                    | <b>21,330</b>                           | <b>78,029</b>     | <b>21,330</b>              | <b>78,029</b> | <b>N/A</b>               | <b>N/A</b>     |
| Net operating loss deduction                                                                   | 3,879                                   | 8,811             | 3,879                      | 8,811         | N/A                      | N/A            |
| Specific deduction                                                                             | 14,516                                  | 13,440            | 14,516                     | 13,440        | N/A                      | N/A            |
| <b>Organizations with gross unrelated business income (UBI) of \$10,001 or more [1]:</b>       |                                         |                   |                            |               |                          |                |
| <b>Total deductions [3,5]</b>                                                                  | <b>24,609</b>                           | <b>11,625,646</b> | <b>N/A</b>                 | <b>N/A</b>    | <b>14,702</b>            | <b>680,590</b> |
| <b>Deductions directly connected with UBI</b>                                                  | <b>22,922</b>                           | <b>10,962,336</b> | <b>N/A</b>                 | <b>N/A</b>    | <b>13,291</b>            | <b>643,722</b> |
| Allocable to rental income [6]                                                                 | 2,259                                   | 272,908           | N/A                        | N/A           | 1,530                    | 53,007         |
| Allocable to unrelated debt-financed income [6]                                                | 2,455                                   | 675,877           | N/A                        | N/A           | 1,564                    | 71,528         |
| Allocable to investment income [6,7]                                                           | 615                                     | 31,352            | N/A                        | N/A           | * 82                     | * 1,207        |
| Allocable to income from controlled organizations [6]                                          | 324                                     | 80,605            | N/A                        | N/A           | 127                      | 4,944          |
| Allocable to exploited exempt activity income, except advertising [6]                          | 630                                     | 181,290           | N/A                        | N/A           | 194                      | 5,072          |
| Direct advertising costs [6]                                                                   | 4,127                                   | 861,058           | N/A                        | N/A           | 2,455                    | 80,756         |
| Compensation of officers, directors, and trustees                                              | 1,791                                   | 62,941            | N/A                        | N/A           | 846                      | 9,476          |
| Salaries and wages                                                                             | 10,306                                  | 2,067,341         | N/A                        | N/A           | 4,795                    | 115,234        |
| Repairs and maintenance                                                                        | 6,767                                   | 139,482           | N/A                        | N/A           | 3,384                    | 16,282         |
| Bad debts                                                                                      | 598                                     | 47,221            | N/A                        | N/A           | 69                       | 438            |
| Interest                                                                                       | 2,558                                   | 177,285           | N/A                        | N/A           | 966                      | 13,252         |
| Taxes and licenses paid deduction                                                              | 10,532                                  | 232,914           | N/A                        | N/A           | 5,419                    | 26,591         |
| Depreciation                                                                                   | 7,029                                   | 320,183           | N/A                        | N/A           | 3,235                    | 20,375         |
| Depletion                                                                                      | 242                                     | 14,146            | N/A                        | N/A           | 177                      | 547            |
| Contributions to deferred compensation plans                                                   | 1,144                                   | 19,695            | N/A                        | N/A           | 309                      | 494            |
| Contributions to employee benefit programs                                                     | 5,084                                   | 445,665           | N/A                        | N/A           | 1,778                    | 11,528         |
| Net operating loss deduction                                                                   | 4,172                                   | 499,899           | N/A                        | N/A           | 2,272                    | 26,685         |
| Other deductions                                                                               | 14,555                                  | 4,832,648         | N/A                        | N/A           | 7,305                    | 186,305        |
| <b>Deductions not directly connected with UBI</b>                                              | <b>12,506</b>                           | <b>663,310</b>    | <b>N/A</b>                 | <b>N/A</b>    | <b>7,562</b>             | <b>36,868</b>  |
| Specific deduction                                                                             | 10,610                                  | 10,255            | N/A                        | N/A           | 6,556                    | 6,339          |
| Charitable contributions                                                                       | 2,377                                   | 197,506           | N/A                        | N/A           | ** 1,126                 | ** 5,207       |
| Set-asides [7]                                                                                 | 152                                     | 137,702           | N/A                        | N/A           | **                       | **             |
| Excess exempt-activity expenses [8]                                                            | 2,255                                   | 317,847           | N/A                        | N/A           | 1,249                    | 25,322         |

Footnotes at end of table.

**Table 7. Unrelated Business (UBI) Income Tax Returns: Types of Deductions, by Size of Gross Unrelated Business Income, Tax Year 2012—Continued**

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

| Item                                                                                           | Size of gross unrelated business income—continued |                  |                             |                  |                               |                  |                     |                  |
|------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------|-----------------------------|------------------|-------------------------------|------------------|---------------------|------------------|
|                                                                                                | \$100,000 under \$500,000                         |                  | \$500,000 under \$1,000,000 |                  | \$1,000,000 under \$5,000,000 |                  | \$5,000,000 or more |                  |
|                                                                                                | Number of returns                                 | Amount           | Number of returns           | Amount           | Number of returns             | Amount           | Number of returns   | Amount           |
|                                                                                                | (7)                                               | (8)              | (9)                         | (10)             | (11)                          | (12)             | (13)                | (14)             |
| <b>Number of returns</b>                                                                       | <b>6,502</b>                                      | <b>N/A</b>       | <b>1,577</b>                | <b>N/A</b>       | <b>1,458</b>                  | <b>N/A</b>       | <b>376</b>          | <b>N/A</b>       |
| <b>Total deductions [2,3]</b>                                                                  | <b>6,496</b>                                      | <b>1,636,283</b> | <b>1,577</b>                | <b>1,064,988</b> | <b>1,457</b>                  | <b>2,868,939</b> | <b>376</b>          | <b>5,374,846</b> |
| <b>Organizations with gross unrelated business income (UBI) of \$1,000 under \$10,001 [1]:</b> |                                                   |                  |                             |                  |                               |                  |                     |                  |
| <b>Total deductions [4]</b>                                                                    | <b>N/A</b>                                        | <b>N/A</b>       | <b>N/A</b>                  | <b>N/A</b>       | <b>N/A</b>                    | <b>N/A</b>       | <b>N/A</b>          | <b>N/A</b>       |
| Net operating loss deduction                                                                   | N/A                                               | N/A              | N/A                         | N/A              | N/A                           | N/A              | N/A                 | N/A              |
| Specific deduction                                                                             | N/A                                               | N/A              | N/A                         | N/A              | N/A                           | N/A              | N/A                 | N/A              |
| <b>Organizations with gross unrelated business income (UBI) of \$10,001 or more [1]:</b>       |                                                   |                  |                             |                  |                               |                  |                     |                  |
| <b>Total deductions [3,5]</b>                                                                  | <b>6,496</b>                                      | <b>1,636,283</b> | <b>1,577</b>                | <b>1,064,988</b> | <b>1,457</b>                  | <b>2,868,939</b> | <b>376</b>          | <b>5,374,846</b> |
| <b>Deductions directly connected with UBI</b>                                                  | <b>6,289</b>                                      | <b>1,557,064</b> | <b>1,543</b>                | <b>1,014,507</b> | <b>1,428</b>                  | <b>2,718,643</b> | <b>371</b>          | <b>5,028,400</b> |
| Allocable to rental income [6]                                                                 | 491                                               | 79,556           | 98                          | 35,962           | 114                           | 71,055           | 26                  | 33,328           |
| Allocable to unrelated debt-financed income [6]                                                | 588                                               | 126,048          | 127                         | 57,458           | 126                           | 121,789          | 50                  | 299,054          |
| Allocable to investment income [6,7]                                                           | 302                                               | 4,189            | 138                         | 3,436            | 78                            | 11,375           | * 14                | * 11,145         |
| Allocable to income from controlled organizations [6]                                          | 86                                                | 12,536           | 35                          | 7,702            | 54                            | 27,904           | 23                  | 27,520           |
| Allocable to exploited exempt activity income, except advertising [6]                          | 251                                               | 32,135           | 70                          | 21,701           | 93                            | 57,310           | 22                  | 65,071           |
| Direct advertising costs [6]                                                                   | 1,076                                             | 142,817          | 280                         | 96,902           | 248                           | 193,876          | 68                  | 346,706          |
| Compensation of officers, directors, and trustees                                              | 587                                               | 13,891           | 163                         | 7,464            | 161                           | 19,278           | 34                  | 12,832           |
| Salaries and wages                                                                             | 3,502                                             | 368,215          | 896                         | 222,921          | 887                           | 568,588          | 226                 | 792,383          |
| Repairs and maintenance                                                                        | 2,201                                             | 31,334           | 516                         | 16,105           | 528                           | 34,011           | 137                 | 41,749           |
| Bad debts                                                                                      | 220                                               | 1,316            | 99                          | 3,297            | 152                           | 12,514           | 58                  | 29,657           |
| Interest                                                                                       | 1,020                                             | 12,535           | 262                         | 10,884           | 236                           | 20,433           | 74                  | 120,182          |
| Taxes and licenses paid deduction                                                              | 3,255                                             | 49,647           | 853                         | 29,785           | 773                           | 54,010           | 231                 | 72,882           |
| Depreciation                                                                                   | 2,361                                             | 58,899           | 630                         | 38,802           | 615                           | 85,233           | 188                 | 116,873          |
| Depletion                                                                                      | 29                                                | 1,265            | * 14                        | * 2,177          | * 13                          | * 2,636          | * 8                 | * 7,522          |
| Contributions to deferred compensation plans                                                   | 470                                               | 1,842            | 193                         | 1,994            | 142                           | 6,145            | 30                  | 9,220            |
| Contributions to employee benefit programs                                                     | 1,895                                             | 34,805           | 579                         | 28,366           | 648                           | 104,209          | 183                 | 266,757          |
| Net operating loss deduction                                                                   | 1,118                                             | 57,197           | 310                         | 46,418           | 385                           | 169,161          | 87                  | 200,437          |
| Other deductions                                                                               | 4,576                                             | 528,837          | 1,196                       | 383,134          | 1,162                         | 1,159,116        | 317                 | 2,575,082        |
| <b>Deductions not directly connected with UBI</b>                                              | <b>3,183</b>                                      | <b>79,219</b>    | <b>811</b>                  | <b>50,481</b>    | <b>745</b>                    | <b>150,296</b>   | <b>205</b>          | <b>346,447</b>   |
| Specific deduction                                                                             | 2,608                                             | 2,500            | 690                         | 666              | 598                           | 592              | 158                 | 158              |
| Charitable contributions                                                                       | 733                                               | 12,859           | 215                         | 7,967            | 255                           | 24,157           | ** 107              | ** 227,492       |
| Set-asides [7]                                                                                 | 40                                                | 8,954            | 25                          | 11,064           | 27                            | 37,508           | **                  | **               |
| Excess exempt-activity expenses [8]                                                            | 630                                               | 54,907           | 153                         | 30,783           | 169                           | 88,039           | 54                  | 118,797          |

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

\*\*Data in adjacent items are combined to avoid disclosure of information about specific taxpayers.

N/A—Not applicable.

[1] 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 rows 14 through 39.

[2] 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 \$2.8billion.

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

[4] Excludes \$65 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 \$2.4 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. See Table 1 for separate data on each of these organizations.

[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.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

**Table 8. Unrelated Business Income (UBI) Tax Returns for 501(c)(3) Organizations: Number of Returns, Gross Unrelated Business Income, 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 2012**

[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 | Total deductions [1,2] |                  | Unrelated business taxable income (less deficit) |               | Unrelated business taxable income [3] |                | Total tax [4]     |                |
|--------------------------------------------------------------------------|-------------------|---------------------------------|------------------------|------------------|--------------------------------------------------|---------------|---------------------------------------|----------------|-------------------|----------------|
|                                                                          |                   |                                 | Number of returns      | Amount           | Number of returns                                | Amount        | Number of returns                     | Amount         | Number of returns | Amount         |
|                                                                          | (1)               | (2)                             | (3)                    | (4)              | (5)                                              | (6)           | (7)                                   | (8)            | (9)               | (10)           |
| <b>All activities and groupings</b>                                      | <b>16,261</b>     | <b>7,961,514</b>                | <b>16,133</b>          | <b>7,970,019</b> | <b>12,257</b>                                    | <b>-8,505</b> | <b>6,368</b>                          | <b>855,717</b> | <b>6,427</b>      | <b>236,963</b> |
| Agriculture, forestry, hunting, and fishing                              | 116               | 38,152                          | 116                    | 27,886           | 96                                               | 10,266        | 48                                    | 16,975         | 48                | 5,208          |
| Mining                                                                   | 231               | 48,125                          | 231                    | 23,216           | 157                                              | 24,909        | 152                                   | 26,995         | 151               | 4,813          |
| Utilities                                                                | d                 | d                               | d                      | d                | d                                                | d             | d                                     | d              | d                 | d              |
| Construction                                                             | d                 | d                               | d                      | d                | d                                                | d             | d                                     | d              | d                 | d              |
| Manufacturing                                                            | 103               | 45,537                          | 103                    | 36,140           | 94                                               | 9,397         | 16                                    | 15,305         | 17                | 2,968          |
| Wholesale trade                                                          | 22                | 67,113                          | 22                     | 43,308           | 22                                               | 23,805        | 12                                    | 31,099         | 12                | 2,855          |
| Retail trade                                                             | 1,314             | 969,460                         | 1,314                  | 1,015,340        | 1,034                                            | -45,880       | 340                                   | 50,680         | 343               | 16,091         |
| Transportation and warehousing                                           | d                 | d                               | d                      | d                | d                                                | d             | d                                     | d              | d                 | d              |
| Information                                                              | 252               | 112,859                         | 252                    | 114,302          | 152                                              | -1,443        | 64                                    | 8,291          | 66                | 2,757          |
| Finance and insurance, total                                             | 2,244             | 1,123,142                       | 2,180                  | 1,053,174        | 1,791                                            | 69,967        | 1,496                                 | 239,973        | 1,539             | 65,157         |
| Unrelated debt-financed activities, other than rental of real estate     | 371               | 155,666                         | 371                    | 112,095          | 256                                              | 43,570        | 220                                   | 49,959         | 226               | 9,870          |
| Passive income activities with controlled organizations                  | 182               | 124,868                         | 151                    | 106,451          | 150                                              | 18,417        | 136                                   | 31,959         | 138               | 8,702          |
| Other finance and insurance                                              | 1,691             | 842,608                         | 1,658                  | 834,628          | 1,385                                            | 7,980         | 1,140                                 | 158,055        | 1,175             | 46,585         |
| Real estate and rental and leasing, total                                | 4,473             | 886,899                         | 4,441                  | 937,286          | 3,643                                            | -50,387       | 1,683                                 | 94,240         | 1,693             | 26,541         |
| Rental of personal property                                              | 173               | 44,301                          | 141                    | 49,408           | 145                                              | -5,107        | 106                                   | 5,659          | 108               | 1,474          |
| Other real estate and rental and leasing                                 | 4,300             | 842,598                         | 4,300                  | 887,878          | 3,498                                            | -45,280       | 1,577                                 | 88,581         | 1,585             | 25,067         |
| Professional, scientific, and technical services                         | 3,261             | 1,103,167                       | 3,261                  | 1,127,087        | 2,022                                            | -23,920       | 947                                   | 74,703         | 917               | 22,312         |
| Management of companies and enterprises                                  | d                 | d                               | d                      | d                | d                                                | d             | d                                     | d              | d                 | d              |
| Administrative and support and waste management and remediation services | 423               | 400,131                         | 423                    | 392,988          | 264                                              | 7,143         | 89                                    | 37,489         | 101               | 12,677         |
| Educational services                                                     | 118               | 59,885                          | 118                    | 73,647           | 87                                               | -13,762       | * 53                                  | * 271          | * 53              | * 41           |
| Health care and social assistance                                        | 1,043             | 1,846,976                       | 1,043                  | 1,810,681        | 814                                              | 36,295        | 428                                   | 157,828        | 468               | 54,858         |
| Arts, entertainment, and recreation                                      | 1,320             | 588,330                         | 1,289                  | 660,188          | 992                                              | -71,859       | 509                                   | 13,129         | 511               | 3,261          |
| Accommodation and food services                                          | 631               | 400,684                         | 631                    | 438,678          | 462                                              | -37,993       | 194                                   | 14,285         | 167               | 4,355          |
| Other services                                                           | 516               | 94,339                          | 516                    | 98,965           | 447                                              | -4,626        | 262                                   | 6,416          | 265               | 1,364          |
| Exploited exempt activities                                              | 109               | 40,416                          | 109                    | 38,870           | 103                                              | 1,546         | 24                                    | 4,198          | 24                | 1,255          |
| Other activity                                                           | 37                | 19,962                          | 37                     | 5,697            | 36                                               | 14,264        | 35                                    | 14,276         | 35                | 3,208          |
| Not allocable                                                            | 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 were deleted to prevent disclosure of individual taxpayer data. However, the 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] Includes data from returns with positive amounts of unrelated business taxable income only.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$2.4 million.

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

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Organizations, Unrelated Business Income, October 2015.

# Foreign Recipients of U.S. Income, 2013

by Scott Luttrell

U.S.-source income payments to foreign persons, as reported on Form 1042-S, *Foreign Person's U.S.-Source Income Subject to Withholding*, rose to \$697.6 billion for Calendar Year 2013. This represents an increase of 3.7 percent from 2012. U.S.-source income payments subject to withholding tax rose by 24.5 percent from 2012, which fueled an increase in withholding taxes of 31.2 percent. Despite these increases, nearly 88 percent of all U.S.-source income paid to foreign persons remains exempt from withholding tax. The residual U.S.-source income subject to tax was withheld at an average rate of 16.8 percent.

Entities such as financial institutions, businesses, and academic institutions that report U.S. payments to nonresident aliens are considered withholding agents. The Internal Revenue Code (IRC) requires withholding agents to withhold tax from U.S.-source fixed, determinable, annual, or periodic (FDAP) income paid to foreign persons. This is commonly referred to as Chapter 3 withholding or nonresident alien (NRA) withholding. The withholding agent is required to report aggregate U.S.-source FDAP payments made and any associated tax withheld in a calendar year on Form 1042, *Annual Withholding Tax Return for U.S.-Source Income of Foreign Persons*. Furthermore, payments to foreign recipients are reported to the IRS on Form 1042-S; a copy is provided to the payee. Form 1042-S is used to report many types of income, including, but not limited to, interest, rents, royalties, corporate distributions, pension income, and gambling winnings.

## Data Overview for 2013

In 2013, the majority of U.S.-source income paid to foreign persons (78.5 percent) went to only 11 countries (Figure A, Part 1). Foreign persons from the United Kingdom received \$133.1 billion (19.1 percent of the total) in U.S.-source income payments, an increase of 44.8 percent from 2012. Recipients from the United Kingdom received \$64.7 billion more than any other country. United Kingdom corporations received 21.6 percent of all payments to corporate recipients. Japanese recipients of U.S.-source income collected \$68.4 billion (9.8 percent), a one-year increase of 12.7 percent. Recipients from the Cayman Islands received \$54.7 billion (7.8 percent) in 2013. Luxembourg recipients collected \$54.0 billion (7.7 percent), an increase of 36.7 percent from the previous year, while Canadian residents collected \$48.1 billion (6.9 percent) of U.S.-source income in 2013.

Foreign recipients located in the 12 countries displayed in Figure A, Part 2, combined, paid \$9.4 billion in withholding taxes, or 66.2 percent of the total, in 2013. Recipients in the Cayman Islands paid \$1.9 billion in withholding taxes (13.4 percent of the total), the most of any country, which was an increase of 22.9 percent from 2012. Recipients from Luxembourg paid

nearly \$1.3 billion in withholding taxes (9.1 percent), a jump of 57.8 percent from the previous year. Canadian recipients had the largest amount of U.S.-source income subject to tax among all treaty countries and paid 8.3 percent of total withholding taxes. Recipients from the United Kingdom paid over \$1 billion in withholding taxes in 2013 (7.2 percent).

Tax treaties are one of the primary reasons behind relatively low withholding tax rates on payments of U.S.-source income to foreign persons. Some 65 countries had treaties in force with the United States (Table 1) in 2013. Nearly 76.4 percent of all payments reported on Form 1042-S went to recipients in treaty countries during 2013. Foreign recipients from tax treaty countries received 81.9 percent of total U.S. income paid to foreign persons and paid 63.0 percent of all withholding taxes. Recipients of U.S. income payments subject to withholding from treaty countries had an average withholding rate of 13.9 percent, compared to 25.6 percent on payments made to residents of nontreaty countries.

Residents in 11 nontreaty jurisdictions received more than \$1 billion of U.S.-source income in 2013: the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Hong Kong, Kuwait, Puerto Rico, Saudi Arabia, Singapore, and the United Arab Emirates. Nontreaty countries combined to account for \$125.9 billion of total U.S.-source income and \$5.2 billion of total tax withheld.

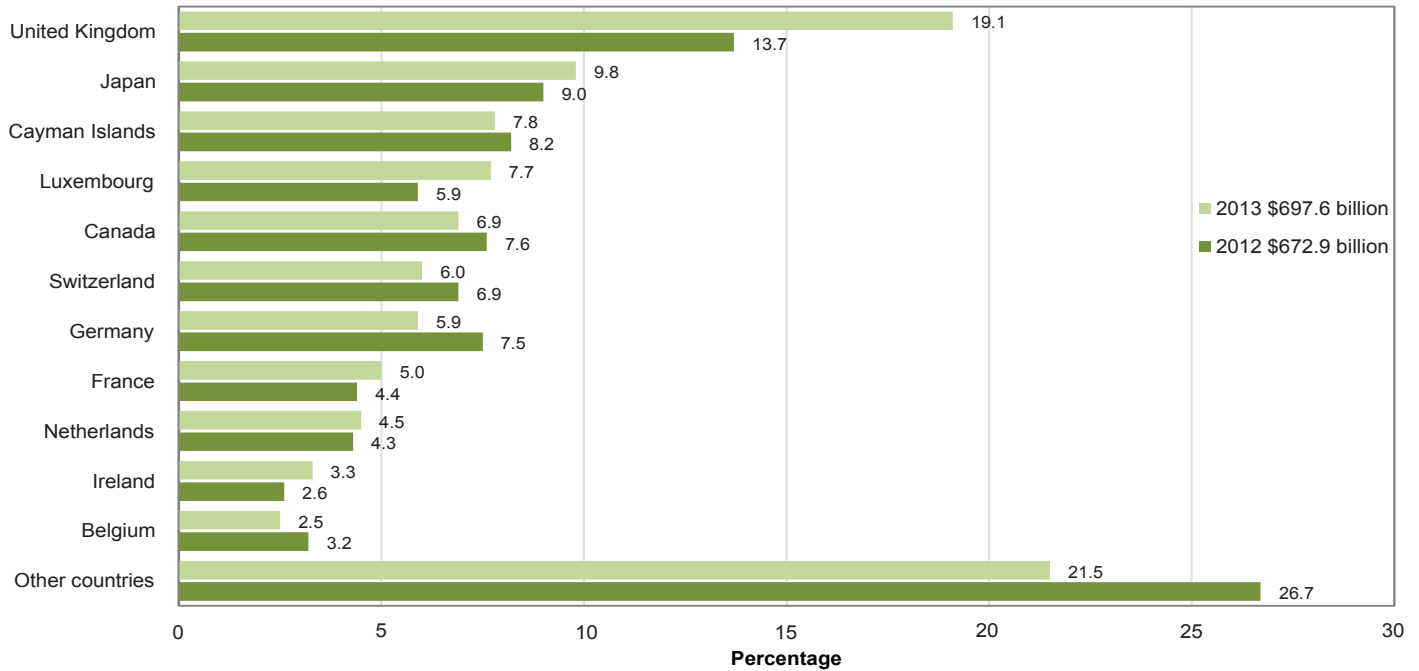
## Highlights

- U.S.-source income paid to foreign persons, as reported on Form 1042-S, was \$697.6 billion for 2013.
- Nearly 88 percent of U.S. income paid to foreign persons was exempt from withholding tax.
- Taxes totaling \$14.2 billion were withheld on U.S. income paid to foreign persons for 2013, for an average effective withholding rate of 16.8 percent.
- Interest payments (42.1 percent) and dividends (23.3 percent) accounted for most of the U.S. income paid to foreign persons.
- Foreign persons in the United Kingdom received the most U.S.-source income (\$133.1 billion; 19.1 percent of the total).
- Foreign persons in the Cayman Islands paid more than \$1.9 billion in withholding taxes (13.4 percent of the total), the most of any country.
- Foreign partners received \$8.8 billion from U.S. partnerships, and \$3.4 billion in U.S. taxes were withheld on that income.
- Sales of U.S. real property interests by foreign persons totaled \$7.5 billion, and U.S. taxes of \$741 million were withheld on that income.

**Figure A1**

**Percentage of Total U.S.-Source Income Paid to Foreign Persons as Reported on Form 1042-S, by Country of Foreign Recipient, 2012 and 2013**

Country of foreign recipient



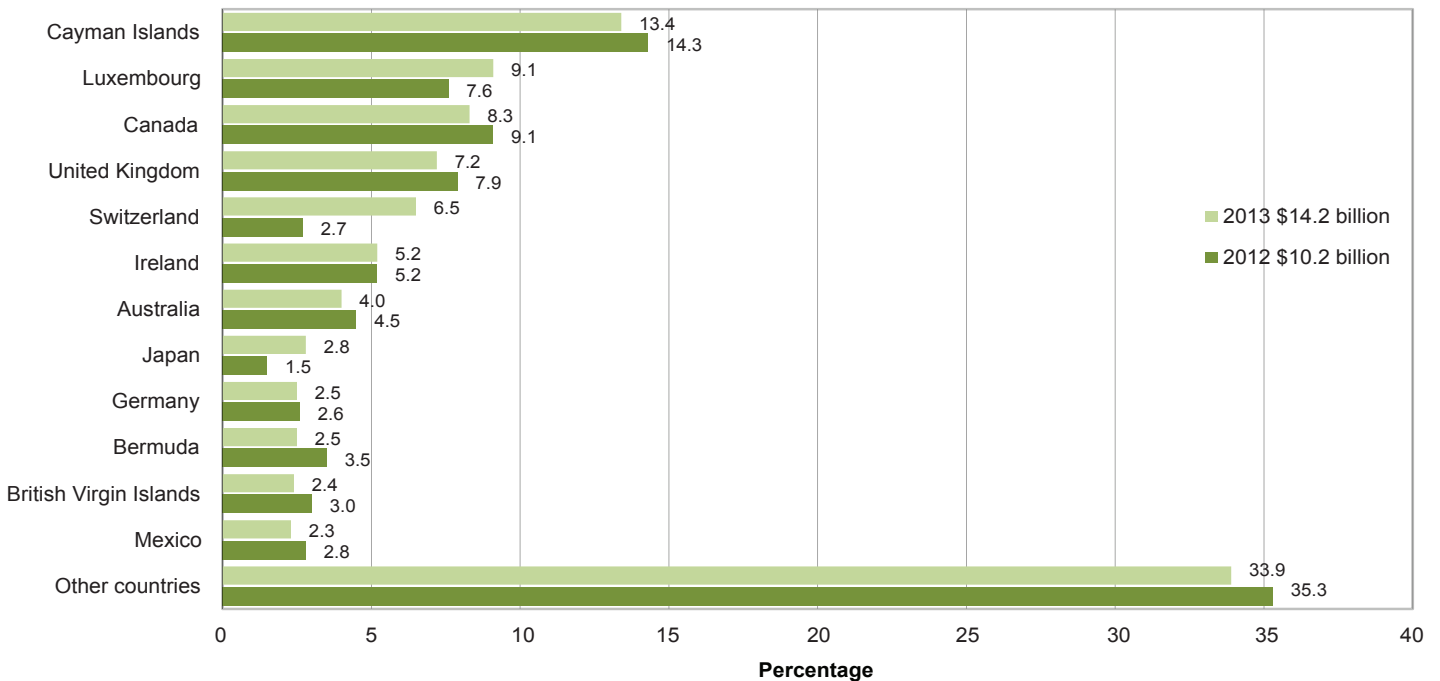
NOTE: Form 1042-S, Foreign Person's U.S.-Source Income Subject to Withholding.

SOURCE: IRS, Statistics of Income Division, Withholding on Foreign Recipients of U.S. Income, October 2016.

**Figure A2**

**Percentage of Total Taxes Withheld on U.S.-Source Income as Reported on Form 1042-S, by Country of Foreign Recipient, 2012 and 2013**

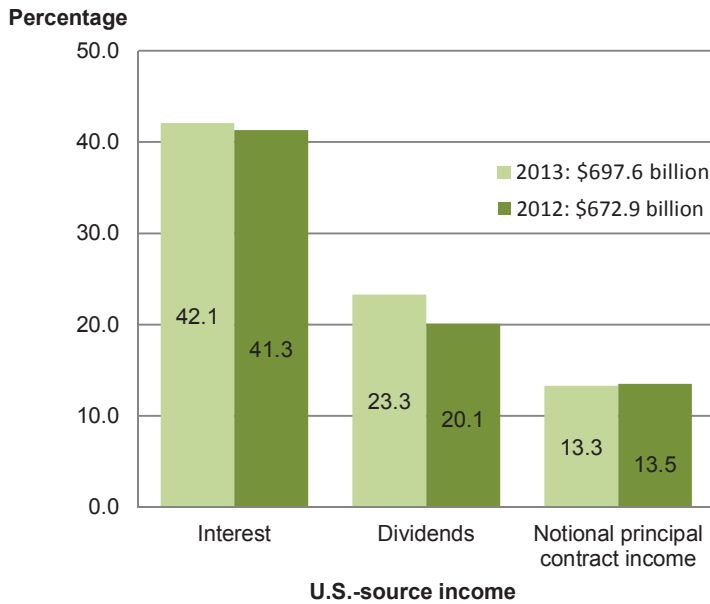
Country of foreign recipient



NOTE: Form 1042-S, Foreign Person's U.S.-Source Income Subject to Withholding.

SOURCE: IRS, Statistics of Income Division, Withholding on Foreign Recipients of U.S. Income, October 2016.

**Figure B**  
**Percentage of U.S.-Source Income Paid to Foreign Persons as Reported on Form 1042-S, by Selected Income Category, 2012 and 2013**



NOTE: Form 1042-S, Foreign Person's U.S.-Source Income Subject to Withholding.  
 SOURCE: IRS, Statistics of Income Division, Withholding on Foreign Recipients of U.S. Income, October 2016.

The primary types of U.S.-source income paid to foreign recipients as reported on Form 1042-S in 2013 remained consistent with previous years (Figure B). Interest payments totaled \$293.7 billion, which was an increase of 5.6 percent from 2012. Interest payments accounted for 42.1 percent of total gross income, a change of less than 1 percent from the previous year. Dividends paid to foreign persons rose by 20.3 percent to \$162.7 billion and they accounted for 23.3 percent of total gross income. Notional principal contract income totaled \$92.8 billion or 13.3 percent of total gross income. Payments of rents and royalties (6.3 percent) to foreign persons fell slightly to \$44.2 billion in 2013 and it was the only major income category that declined from 2012.

A notional principal contract is one involving two parties who agree contractually to pay each other amounts at specified times, based on the underlying notional amount. The underlying amount is notional because neither party to the notional principal contract is required to actually hold the property comprising the underlying amount. Notional principal contracts are used by financial institutions to reduce the risk of changes in interest rates, commodity prices, and currency exchange rates. Interest rate swaps, currency swaps, and equity swaps are examples of notional principal contracts.

U.S.-source payments to foreign persons are commonly exempt from withholding tax. The primary reasons for withholding exemptions are either due to a tax treaty between the United States and the recipient's country of residence, or the fact that the specific type of income (portfolio or bank deposit

interest, for instance) is exempt under an Internal Revenue Code section. Income effectively connected with a U.S. trade or business is also exempt from withholding.

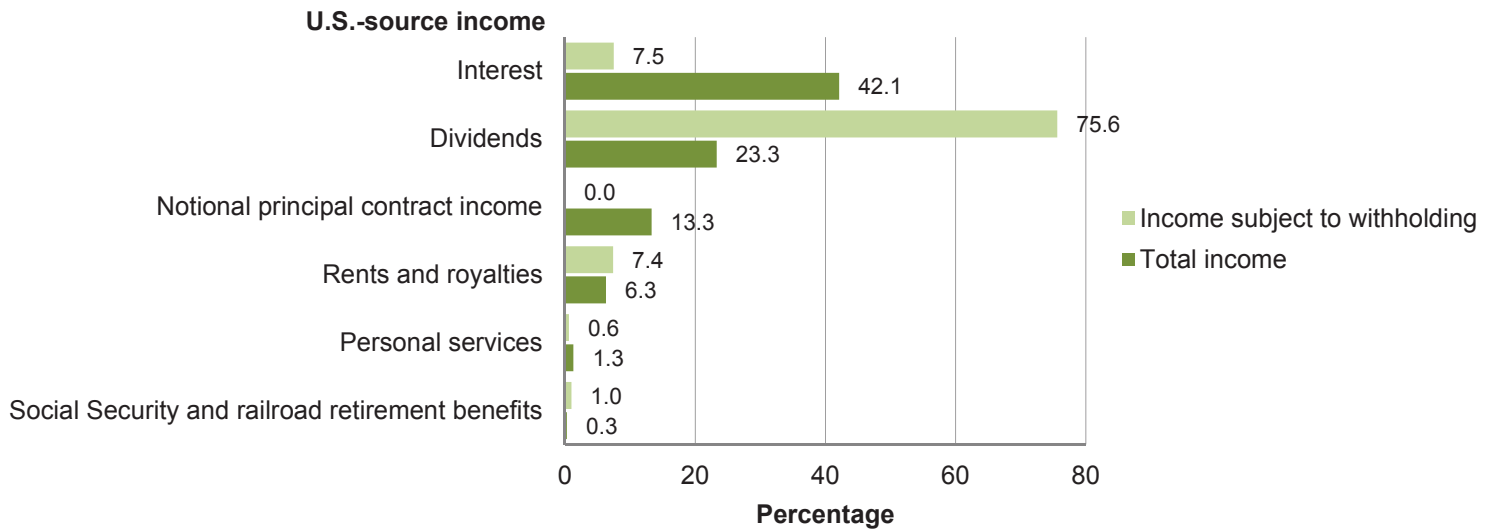
Over \$70.0 billion (10.0 percent) of total U.S.-source income payments to foreign persons was subject to tax in 2013. Figure C presents the percentages of U.S.-source income paid to foreign persons and income subject to withholding by income category in 2013. This figure illustrates the differences that exist with respect to the taxation of certain types of income reported on Form 1042-S. For example, dividends comprised a majority (75.6 percent) of income subject to tax, despite accounting for only 23.3 percent of total income. Dividend income subject to withholding was taxed at an average effective rate of 16.6 percent. While dividends are taxed at comparatively high rates, interest is much more likely to be exempt from withholding. For 2013, interest payments constituted the largest share of total income (42.1 percent) but made up only 7.5 percent of all U.S.-source income subject to withholding. Furthermore, a mere 2.0 percent of interest income was subject to withholding; it was taxed at an average rate of 13.9 percent. As mentioned previously, notional principal contract income accounts for 13.3 percent of U.S.-source income paid to foreign persons; however, it is not generally subject to withholding tax. Rents and royalty payments are more likely to be taxed, and they account for 6.3 percent of all income and 7.4 percent of income subject to withholding.

**Additional Foreign Income and Withholding Data**

While the majority of U.S. income paid to foreign recipients is subject to withholding under Chapter 3 of the IRC and is reported on Form 1042-S, information from other tax forms is useful for providing a comprehensive look at withholding tax of foreign persons' U.S. income. U.S. partnership income that is allocable to foreign partners is reported on Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*. Partnerships are required to withhold income tax on effectively connected taxable income deemed allocable to foreign partners. A U.S. partnership files Form 8805 to show the amount of taxable income and total tax allocable to the foreign partner for the partnership's tax year. The statutory withholding rate for partnership income allocable to foreign partners is 35 percent. Reduced withholding rates may apply if the foreign partner is an individual and the specific type of income is among those subject to preferential rates. These types of income include capital gains, depreciation recapture, and collectible gains.

Another tax form that provides information about withholding on foreign persons' U.S. income is Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*. The Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) was introduced to ensure that the United States collected a portion of the capital gains realized by foreigners from the sales of U.S. real property interests. Form 8288-A is used to report the sales price of U.S. real property sold by the foreign person and the tax withheld on that sales price. Typically, the sales price is subject to 10-percent withholding,

**Figure C**  
**Percentages of U.S.-Source Income Paid to Foreign Persons and Income Subject to Withholding as Reported on Form 1042-S, by Selected Income Category, 2013**



NOTE: Form 1042-S, *Foreign Person's U.S.-Source Income Subject to Withholding*.  
 SOURCE: IRS, Statistics of Income Division, *Withholding on Foreign Recipients of U.S. Income*, October 2016.

although corporations may be taxed at rates up to 35 percent in certain circumstances.<sup>1</sup> In some instances, the seller may elect to pay a 35-percent tax on the capital gain rather than a 10-percent withholding tax on the sales price. When a foreign person sells real property interests in the United States, the buyer of the property is responsible for collecting and remitting to the IRS the appropriate amount of withholding and filing the necessary tax forms.

A withholding tax equivalent on a foreign person's U.S. income in the form of a branch profits tax is reported on Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*. The branch profits tax was created to achieve neutrality for foreign investments in the United States through a U.S. branch or a U.S. subsidiary of a foreign parent corporation. While dividends paid by a U.S. subsidiary to its foreign parent corporation are subject to a 30-percent (or lower) withholding tax, profits of a U.S. branch of a foreign parent would not be subject to an equivalent tax absent the branch profits tax. The amount of income remitted from the U.S. branch to its foreign owner, known as the dividend equivalent amount, is reported on Form 1120-F, along with the associated tax on that amount (i.e., branch profits tax).

The combined withholding tax on U.S.-source income paid to foreign persons for 2013 was \$18.4 billion, with an average effective tax rate of 17.9 percent (Figure D). The effective withholding rates vary widely among the various tax forms. U.S. partnership income allocable to foreign partners is subject to significantly higher rates of withholding than other types of U.S. income because it is not typically reduced by tax treaties and is far more likely to be taxed near the statutory 35-percent tax rate.

For 2013, the average effective withholding rate on U.S. partnership distributions to foreign partners was 34.1 percent. The 9.9-percent withholding rate on income from the sale of U.S. real property interests is comparatively low because the statutory rate for this type of income is just 10 percent. The average effective rate on foreign branch profits (11.6 percent) reported on Form 1120-F was less than the 30-percent statutory rate because recipients frequently qualify for reduced rates through tax treaties.

The six States with the most U.S. real property interest sales in 2013 made up 71.6 percent of all transactions, 70.1 percent of the total sales revenue, and 65.4 percent of taxes withheld (Figure E). The largest number of real property sales occurred in Florida. In fact, Florida had more than 4.5 times as many transactions as California, which had the second most transactions in 2013. Many real property sales could not be assigned to a specific State for reasons including: the real property transaction involved the transfer of stock in a portfolio of real estate holdings not specific to a geographic area; or the transaction involved the sale of an ownership interest in an entity which controlled real estate in multiple locations in the United States.

**Early Look at Withholding Under Chapter 4**

The Foreign Account Tax Compliance Act (FATCA) became U.S. Federal law in 2010 as part of the Hiring Incentives to Restore Employment (HIRE) Act. Under FATCA, foreign financial institutions and certain other nonfinancial foreign entities are required to report on the foreign assets held by their U.S. account holders or be subject to withholding on withholdable

<sup>1</sup> The withholding rate has been increased from 10 percent to 15 percent for sales occurring on or after February 16, 2016.



Figure D

**U.S.-Source Income Payments to Foreign Persons: Number of Forms, Income, Tax Withheld, and Effective Tax Rate, by IRS Form Type and Selected Country, 2013**

[Money amounts are in thousands of dollars]

| Form type and selected country                   | All payments          |                    | Payments subject to withholding tax |                    |                   |                        |
|--------------------------------------------------|-----------------------|--------------------|-------------------------------------|--------------------|-------------------|------------------------|
|                                                  | Total number of forms | Income (less loss) | Number of forms [1]                 | Income [2]         | U.S. tax withheld | Effective tax rate [3] |
|                                                  | (1)                   | (2)                | (3)                                 | (4)                | (5)               | (6)                    |
| <b>All forms</b>                                 | <b>4,882,932</b>      | <b>717,292,176</b> | <b>2,744,973</b>                    | <b>102,803,241</b> | <b>18,395,349</b> | <b>17.9</b>            |
| <b>Form 1042-S: All countries</b>                | <b>4,707,643</b>      | <b>697,628,381</b> | <b>2,604,188</b>                    | <b>84,640,288</b>  | <b>14,189,285</b> | <b>16.8</b>            |
| United Kingdom                                   | 484,190               | 133,083,731        | 298,480                             | 5,973,275          | 1,020,648         | 17.1                   |
| Japan                                            | 185,568               | 68,424,719         | 63,265                              | 6,312,339          | 395,077           | 6.3                    |
| Cayman Islands                                   | 102,266               | 54,708,845         | 32,543                              | 6,543,180          | 1,899,350         | 29.0                   |
| Luxembourg                                       | 17,726                | 53,999,119         | 6,906                               | 5,522,088          | 1,289,536         | 23.4                   |
| Canada                                           | 583,107               | 48,153,046         | 344,225                             | 10,573,583         | 1,171,429         | 11.1                   |
| Switzerland                                      | 75,111                | 42,028,358         | 39,579                              | 7,733,786          | 921,886           | 11.9                   |
| Germany                                          | 438,833               | 41,190,259         | 198,673                             | 2,784,162          | 360,929           | 13.0                   |
| France                                           | 88,382                | 35,045,021         | 52,260                              | 1,585,207          | 254,517           | 16.1                   |
| Netherlands                                      | 67,411                | 31,321,229         | 37,712                              | 1,507,051          | 198,458           | 13.2                   |
| Ireland                                          | 64,918                | 22,725,429         | 41,774                              | 3,430,676          | 734,006           | 21.4                   |
| Belgium                                          | 32,849                | 17,104,889         | 23,502                              | 740,185            | 149,063           | 20.1                   |
| China                                            | 194,987               | 11,457,885         | 63,306                              | 404,025            | 53,005            | 13.1                   |
| Australia                                        | 229,923               | 10,750,984         | 194,648                             | 3,803,226          | 568,293           | 14.9                   |
| Bermuda                                          | 19,427                | 8,749,861          | 7,826                               | 1,177,918          | 348,635           | 29.6                   |
| Singapore                                        | 97,491                | 7,991,570          | 74,987                              | 385,390            | 109,527           | 28.4                   |
| Taiwan                                           | 105,130               | 7,961,438          | 64,494                              | 505,848            | 125,020           | 24.7                   |
| Mexico                                           | 262,090               | 7,735,074          | 129,810                             | 2,526,605          | 323,621           | 12.8                   |
| <b>Form 8805: All countries [4]</b>              | <b>154,199</b>        | <b>8,778,280</b>   | <b>120,487</b>                      | <b>9,913,940</b>   | <b>3,379,636</b>  | <b>34.1</b>            |
| Germany                                          | 76,329                | 1,071,814          | 57,378                              | 1,204,805          | 385,425           | 32.0                   |
| United Kingdom                                   | 7,656                 | 913,929            | 5,762                               | 1,272,465          | 457,354           | 35.9                   |
| Sweden                                           | 293                   | 753,840            | 194                                 | 762,845            | 283,128           | 37.1                   |
| Canada                                           | 10,327                | 679,770            | 8,246                               | 747,685            | 259,518           | 34.7                   |
| Netherlands                                      | 2,454                 | 493,886            | 1,313                               | 576,848            | 175,700           | 30.5                   |
| Cayman Islands                                   | 1,348                 | 283,696            | 806                                 | 297,489            | 103,811           | 34.9                   |
| Norway                                           | 575                   | 280,576            | 558                                 | 280,789            | 98,324            | 35.0                   |
| <b>Form 8288-A: All countries</b>                | <b>18,788</b>         | <b>7,509,660</b>   | <b>18,788</b>                       | <b>7,509,660</b>   | <b>740,643</b>    | <b>9.9</b>             |
| Canada                                           | 5,967                 | 1,563,225          | 5,967                               | 1,563,225          | 137,927           | 8.8                    |
| Germany                                          | 1,284                 | 462,413            | 1,284                               | 462,413            | 50,888            | 11.0                   |
| United Kingdom                                   | 1,823                 | 458,267            | 1,823                               | 458,267            | 45,503            | 9.9                    |
| Japan                                            | 764                   | 346,576            | 764                                 | 346,576            | 31,243            | 9.0                    |
| <b>Form 1120-F: Reporting branch profits tax</b> | <b>2,302</b>          | <b>3,375,855</b>   | <b>1,510</b>                        | <b>739,353</b>     | <b>85,785</b>     | <b>11.6</b>            |

[1] Number of forms in this column includes returns with income subject to taxation for Form 1042-S; positive income (excluding losses) for Form 8805; sales revenue for Form 8288-A; and branch profits tax for Form 1120-F.

[2] Amounts in this column represent income subject to taxation for Form 1042-S; positive income (excluding losses) for Form 8805; sales price for Form 8288-A; and dividend equivalent amount subject to taxation for Form 1120-F.

[3] U.S. tax withheld (column 5) divided by income (column 4).

[4] Income (less loss) for all payments (column 2) is less than income on payments subject to tax (column 4) because column 2 includes forms with losses.

NOTE: Form 1042-S, *Foreign Person's U.S.-Source Income Subject to Withholding*; Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*; Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*; and Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*.

SOURCE: IRS, Statistics of Income Division, Foreign Recipients of U.S. Income, January 2017. These data were not previously available on the IRS Tax Statistics Web site.

payments. FATCA requires U.S. withholding agents to withhold tax on certain payments to foreign financial institutions (FFIs) that do not agree to report certain information to the IRS regarding their U.S. account, and on certain payments to certain nonfinancial foreign entities (NFFE) that do not provide information on their substantial U.S. owners to withholding agents. Payments subject to withholding under FATCA fall under the newly established Chapter 4 of the IRC.

An early look at the initial data of payments subject to Chapter 4 withholding is available in Figure F. These data reflect payments made between FATCA's effective starting date on July 1, 2014, through the end of the calendar year on December 31, 2014. Approximately half (50.1 percent) of the U.S. source

income reported under Chapter 4 was subject to withholding, and the average withholding rate for these payments was 7.0 percent. The vast majority (86.0 percent) of Chapter 4 income subject to withholding was dividends. Interest payments accounted for 8.6 percent. Tax withheld on dividends (67.7 percent) and interest (15.8 percent) comprised the majority of tax withheld on Chapter 4 payments.

**Data Sources and Limitations**

Payers (or their authorized withholding agents) of most U.S.-source income to foreign persons must withhold tax in accordance with Internal Revenue Code section 1441. Form 1042-S, *Foreign Person's U.S.-Source Income Subject to Withholding*,

**Figure E**  
**U.S. Real Property Sold by Foreign Persons: Number of Forms 8288-A Filed, Total Sales Revenue, and Tax Withheld, by Selected State, 2013**

[Money amounts are in thousands of dollars]

| State location of real property | Total number of forms | Total sales revenue | U.S. tax withheld |
|---------------------------------|-----------------------|---------------------|-------------------|
|                                 | (1)                   | (2)                 | (3)               |
| <b>Total</b>                    | <b>18,788</b>         | <b>7,509,660</b>    | <b>740,643</b>    |
| Florida                         | 8,581                 | 2,176,565           | 189,031           |
| California                      | 1,860                 | 850,989             | 81,465            |
| Hawaii                          | 1,366                 | 539,079             | 49,793            |
| New York                        | 773                   | 1,201,426           | 114,808           |
| Texas                           | 657                   | 254,762             | 25,399            |
| Georgia                         | 219                   | 238,593             | 23,826            |
| All others and nonallocable     | 5,332                 | 2,248,246           | 256,321           |

NOTES: Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*, is filed by the buyer of U.S. real property sold by foreign persons. The buyer must withhold tax in accordance with Internal Revenue Code section 1445.  
 SOURCE: IRS, Statistics of Income Division, Foreign Recipients of U.S. Income, January 2017. These data were not previously available on the IRS Tax Statistics Web site.

is filed by the payer to report this income and the U.S. tax withheld. Often a financial institution acts as the payer's withholding agent. The statistics in this data release were tabulated by calendar year, using all Forms 1042-S filed with the Internal Revenue Service during 2013. The data reflect the income that was paid and U.S. tax that was withheld for 2013.

Domestic partnerships (or their authorized withholding agents) must withhold tax in accordance with Internal Revenue Code section 1446 on distributions made to foreign partners. Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, is filed by the payer to report income paid by U.S. partnerships to their foreign partners and the U.S. tax withheld. The statistics in this data release were tabulated by calendar year, using all Forms 8805 filed with the Internal

Revenue Service during 2013. The data reflect the income that was paid and U.S. tax that was withheld for 2013.

Purchasers of U.S. real property held by foreign persons must withhold tax in accordance with Internal Revenue Code section 1445. Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*, is filed by the buyer of U.S. real property sold by foreign persons. The statistics in this data release were tabulated by calendar year using all Forms 8288-A filed with the Internal Revenue Service with a date of transfer occurring during 2013.

In accordance with Section 884(a), the Internal Revenue Code imposes a 30-percent branch profits tax on after-tax earnings of a foreign corporation's U.S. trade or business that are not reinvested in a U.S. trade or business by the close of the tax year or are disinvested in a later tax year. Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, is filed by the foreign corporation. The statistics in this data release were tabulated based upon all Forms 1120-F included in the Tax Year 2013 SOI Corporation sample.

Because the population of Forms 1042-S, Forms 8805, and Forms 8288-A were used for the statistics, the data are not subject to sampling error. However, the data are subject to nonsampling error, including data entry and taxpayer reporting errors. Because the data were tested and adjusted to ensure that certain basic mathematical relationships held, including the calculation of the correct tax withheld, the possibility of error cannot be completely eliminated.

## Explanation of Selected Terms

*Foreign persons*—For purposes of this data release, foreign persons include: (a) individuals whose residence is not within the United States and who are not U.S. citizens (i.e., nonresident aliens); and (b) corporations and other organizations (including partnerships, private foundations, estates, and trusts) created or

**Figure F**  
**Recipients of U.S. Income Under Chapter 4 Withholding Forms 1042-S: Number, Total U.S.-Source Income, and U.S. Tax Withheld, by Selected Income Types, 2014**

[Money amounts are in thousands of dollars]

| Income type                                             | Number of Forms 1042-S [1] | U.S.-source income |                         |                        | U.S. tax withheld |
|---------------------------------------------------------|----------------------------|--------------------|-------------------------|------------------------|-------------------|
|                                                         |                            | Total              | Exempt from withholding | Subject to withholding |                   |
|                                                         | (1)                        | (2)                | (3)                     | (4)                    | (5)               |
| <b>Total</b>                                            | <b>7,627</b>               | <b>3,966,222</b>   | <b>1,977,655</b>        | <b>1,988,567</b>       | <b>138,440</b>    |
| Dividends                                               | 978                        | 1,836,791          | 126,774                 | 1,710,017              | 93,659            |
| Interest                                                | 1,339                      | 872,626            | 701,283                 | 171,342                | 21,919            |
| Rents and royalties                                     | 676                        | 284,323            | 258,173                 | 26,150                 | 3,860             |
| Pensions, annuities, alimony, and/or insurance premiums | 204                        | 42,712             | 41,277                  | 1,435                  | 362               |
| Compensation for independent personal services          | 463                        | 32,563             | 17,767                  | 14,796                 | 4,813             |
| Real property income and natural resources royalties    | 348                        | 11,496             | 4,153                   | 7,343                  | 2,168             |
| Scholarship or fellowship grants                        | 324                        | 2,497              | 2,311                   | 186                    | 28                |
| Gambling winnings                                       | 845                        | 2,207              | 148                     | 2,059                  | 614               |
| All other income types                                  | 2,450                      | 881,007            | 825,769                 | 55,239                 | 11,017            |

[1] Number of forms in this column includes returns that were withheld upon pursuant to Chapter 4 of the Internal Revenue Code. Returns that were withheld upon pursuant to Chapter 3 of the Internal Revenue Code are not included in this table.

NOTES: Detail may not add to totals because of rounding. Form 1042-S is entitled *Foreign Person's U.S.-Source Income Subject to Withholding*.

SOURCE: IRS, Statistics of Income Division, Foreign Recipients of U.S. Income, October 2016.

organized outside the United States. Individuals residing, and organizations created or organized, in Puerto Rico and U.S. possessions are also considered foreign persons.

*Notional principal contract income*—Notional principal contracts involve two parties who agree contractually to pay each other amounts at specified times based on the underlying contract. The notional amount is an amount specified in the contract, and, based on that amount, certain calculations are made. Generally, when amounts under the contract are due at the same time, they are netted and only one payment is made. Notional principal contract income is not subject to withholding but must be reported on Form 1042-S, if the income was effectively connected with the conduct of a trade or business in the United States.

*Qualified intermediary pool*—Payments made by a qualified intermediary directly to beneficial owners may generally be reported on the basis of reporting pools. A reporting pool

consists of income that falls within a particular withholding rate and within a particular income type, exemption type, or recipient type.

*U.S. branch treated as U.S. person*—The following types of U.S. branches (of foreign entities) may reach an agreement with a withholding agent to treat a branch as a U.S. person: (a) a U.S. branch of a foreign bank subject to regulatory supervision by the Federal Reserve Board; or (b) a U.S. branch of a foreign insurance company required to file an annual statement on a form approved by the National Association of Insurance Commissioners with the Insurance Department of a State, Territory, or the District of Columbia.

---

*Scott Luttrell is an economist with the International Returns Analysis Section, Corporation, Partnership, and International Branch. This data release was prepared under the direction of Chris Carson, Chief.*

