Unrelated Business Income Tax Returns, 2006

by Jael Jackson

Gross unrelated business income reported by charitable and other types of tax-exempt organizations increased 4 percent between Tax Years 2005 and 2006. The $11.3 billion in gross unrelated business income reported for Tax Year 2006 were offset by $10.0 billion in deductions. The resulting net unrelated business taxable income, reported as unrelated business income (less deficit), totaled $1.3 billion for Tax Year 2006, which is 6 percent higher than reported in the previous tax year.

Because tax-exempt organizations generally operate for charitable or other beneficial purposes, most income that they receive is exempt from tax under the Internal Revenue Code. Tax-exempt organizations are permitted to engage in income-producing activities that are considered to be 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*, which is used to determine the amount of unrelated business taxable income and the associated unrelated business income tax liability.

Figure A shows selected financial statistics from Forms 990-T filed for Tax Years 2005 and 2006. After reducing their gross unrelated business incomes by allowable deductions, only about half of the 43,520 organizations that were required to file Form 990-T reported unrelated business income tax liability for Tax Year 2006. Despite an increase in the number of filers, there is a small decrease in the number of organizations that reported unrelated business taxable income, along with an increase in those that reported no taxable unrelated business income.

Additionally, there is a 12.5 percent increase in the number of organizations reporting gross unrelated business income of less than $10,000. Tax-exempt organizations reported $555.7 million in unrelated business income tax liability which is a 2-percent increase from Tax Year 2005. Although gross unrelated business income increased by 14.3 percent in the previous year, that growth is at a much lower rate between Tax Years 2005 and 2006, allowing for an tax liability increase of only 2.3 percent.

Total tax reported on Form 990-T, which comprised the sum of the unrelated business income tax and certain additional taxes, less credits, was $556.2 million. Additional taxes included $6.5 million of alternative minimum tax, $5.5 million of "proxy tax" on certain nondeductible lobbying and political

Figure A

Unrelated Business Income Tax Returns: Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 2005 and 2006

[Money amounts are in thousands of dollars]

Item	2005	2006	Percentage change
	(1)	(2)	(3)
Number of returns, total	**40,676**	**43,520**	**7.0**
With gross unrelated business income of $10,000 or less [1]	15,116	17,008	12.5
With gross unrelated business income over $10,000 [1]	25,560	26,512	3.7
With unrelated business taxable income	23,087	22,191	-3.9
Without unrelated business taxable income [2]	20,289	21,329	5.1
Gross unrelated business income	**10,849,619**	**11,271,392**	**3.9**
Total deductions [3]	**9,635,921**	**9,987,940**	**3.7**
Unrelated business taxable income (less deficit)	**1,213,698**	**1,283,452**	**5.7**
Unrelated business taxable income	2,044,310	2,176,235	6.5
Deficit	830,612	892,783	7.5
Unrelated business income tax	**543,264**	**555,736**	**2.3**
Total tax	**540,819**	**556,285**	**2.9**

[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 $3.0 billion for 2005 and $2.7 billion for 2006.

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.

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expenditures, and $0.21 million of "other" taxes.[1] 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 $11.5 million for Tax Year 2006, exceeding the amount of additional taxes reported. Tax credits included the foreign tax credit ($6.8 million), general business credit ($4.0 million), credit for prior-year minimum tax ($0.2 million), and "other" credits ($0.5 million).

Background

The SOI Sample

The data presented in this article are from sampled Forms 990-T filed for Tax Year 2006 by organizations described in Internal Revenue Code sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a).[2] Tax Year 2006 includes all accounting periods beginning in Calendar Year 2006 and thus ending between December 2006 and November 2007. Consequently, the returns reflect financial activity that occurred in either Calendar Year 2006 or 2007, or some portion of both (see the Data Sources and Limitations section for further information).

Definition of Unrelated Business Income

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 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 (see Gross unrelated business income in the *Explanation of Selected Terms* for additional information).

Filing Requirements and Composition of Tax Year 2006 Filers

A variety of tax-exempt organizations are required to file Form 990-T to report unrelated business income and the associated tax. Figure B details the types of organizations that may be required to file Form 990-T by Internal Revenue Code section, organization, and nature of activities. Charitable organizations, which are tax-exempt under section 501(c)(3), are generally the most common Form 990-T filers.

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than $100,000 and total end-of-year assets of less than $250,000). 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*.[3]

The composition of Form 990-T filers, by type of tax-exempt organization, type of entity, and size of gross unrelated business income and gross unrelated business taxable income, is shown in Figure C. Looking first at the type of organization, as classified by the Internal Revenue Section Code; for Tax Year

[1] 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 $5.5 million used in the total tax computation includes only proxy tax reported by Form 990-T filers with gross unrelated business income above the $1,000 filing threshold. Filers that reported gross unrelated business income below 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 below the filing threshold is not included.

[2] Internal Revenue Code section 501(d) religious and apostolic organizations and farmers' cooperatives report taxes on forms other than Form 990-T.

[3] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to their religious purposes. 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 on Charities and Other Persons 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 Web site at http://www.irs.gov/taxstats.

Figure B

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

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

2006, charitable organizations represented nearly one-third of Form 990-T filers. Traditional Individual Retirement Arrangements (IRAs), exempt under section 408(e), social and recreational clubs, exempt under section 501(c)(7), and business leagues, chambers of commerce and other organizations, exempt under section 501(c)(6), accounted for 16 percent, 15 percent, and 14 percent of all Tax Year 2006 Forms 990-T filed, respectively.

Tax-exempt organizations' unrelated business taxable income is subject to the same tax rates as income reported by for-profit filers. Generally, organizations that, by their structure, classify tax-exempt trusts pay taxes on their unrelated business income

Figure B—Continued

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

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

at the same rates as estate and trust filers, while all other exempt organizations which are structured more like corporations, pay taxes at the corporate rate. Nearly 79 percent of all Tax Year 2006 Forms 990-T were filed by tax-exempt organizations that paid taxes at the corporate rate. Tax-exempt trusts accounted for the additional 21 percent of Forms 990-T filed for the year.

Traditional IRAs, voluntary employees' beneficiary associations, and pension, profit-sharing, and stock bonus plans account for the majority of tax-exempt trusts that file Form 990-T. For Tax

Figure C

Unrelated Busines Income Tax Returns: Form 990-T Filers, by Gross Unrelated Business Income, Gross Unrelated Business Taxable Income, Subsection Code, and Type of Organization

[Money amounts are in thousands of dollars]

Category	Item	Number of returns	Percentage of total
All Forms 990-T	**All returns**	**43,520**	**100.0**
Type of organization	**Total**	**43,520**	**100.0**
	501(c)(3) Religious, educational, charitable, scientific, or literary organizations	14,157	32.5
	501(c)(4) Civic leagues and social welfare organizations	1,650	3.8
	501(c)(5) Labor, agricultural, and horticultural organizations	2,434	5.6
	501(c)(6) Business leagues, chambers of commerce, and real estate boards	6,155	14.1
	501(c)(7) Social and recreational clubs	6,547	15.0
	501(c)(19) War veterans' posts or organizations	1,834	4.2
	408(e) Traditional Individual Retirement Arrangements	6,877	15.8
	Other [1]	3,866	8.9
Type of entity	**Total**	**43,520**	**100.0**
	Corporation	34,255	78.7
	Trust	9,266	21.3
Size of gross unrelated business income	**Total**	**43,520**	**100.0**
	With gross unrelated business income of $10,000 or less	17,008	39.1
	With gross unrelated business income over $10,000	26,512	60.9
Unrelated business taxable income	**Total**	**43,520**	**100.0**
	With unrelated business taxable income	22,191	51.0
	Without business taxable income	21,329	49.0

[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 health plans, exempt under section 529(a); and Coverdell education savings accounts, exempt under section 530(a). See Figure B 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, total deductions, unrelated business taxable income (less deficit), unrelated business income tax, and total tax.

Year 2006, these organizations represented over 85 percent of all trusts that filed the return. Most other types of Tax Year 2006 Form 990-T filers, including the majority of charitable organizations, were primarily organized as corporations.

The majority of all organizations, 61 percent, that filed Form 990-T for Tax Year 2006 reported gross unrelated business income of $10,000 or more. Just over half of all organizations that were required to file Form 990-T reported unrelated business income tax liability after subtracting deductions from gross unrelated business income.

Income Information, by Subsection Code

In addition to comprising nearly 33 percent of Form 990-T filers, charitable organizations accounted for even higher percentages of gross unrelated business income, total unrelated business income tax, and other financial items for Tax Year 2006. Figure D shows various financial items for Tax Year 2006, 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. Charitable organizations accounted for 57 percent of the almost $11.3 billion in gross unrelated business income reported for Tax Year 2006. They claimed 61 percent of total deductions and reported 51 percent of total unrelated business income tax.

Charitable organizations reported 43 percent of total investment income for Tax Year 2006. However, investment income represented only a small percentage, about 21 percent, of gross unrelated business income reported by charitable organizations.

Figure D

Unrelated Business Income Tax Returns: Selected Unrelated Business Income Tax Data for Tax-Exempt Organizations, by Subsection Code, Tax Year 2006

[Money amounts are in thousands of dollars]

Item	Subsection Code								
	All	501(c)(03)	501(c)(04)	501(c)(05)	501(c)(06)	501(c)(07)	501(c)(19)	408(e)	Other [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns	43,520	14,157	1,650	2,434	6,155	6,547	1,834	6,877	3,867
Gross unrelated business income	11,271,392	6,455,264	632,440	281,508	1,145,198	735,052	166,963	76,443	1,778,523
Total investment income [2]	3,053,769	1,324,611	64,752	25,009	36,796	151,952	10,363	70,770	1,369,514
Investment income to gross UBI	27.1	20.5	10.2	8.9	3.2	20.7	6.2	92.6	77.0
Total deductions	9,987,940	6,098,288	541,550	279,583	1,082,947	655,470	170,100	15,793	1,144,209
Unrelated business taxable income (less deficit)	1,283,452	356,976	90,890	1924	62,251	79,582	-3,137	60,651	634,633
Unrelated business taxable income	2,176,235	971,985	117,477	29,325	122,844	124,090	7,640	61,661	741,213
Deficit	892,783	615,009	26,587	27,401	60,593	44,508	10,777	1010	106,580
Unrelated business income tax	555,737	283,853	12,081	7,924	35,102	31,051	1,266	16,328	168,132
Total tax	556,285	280,157	12,102	7,939	40,498	29,186	1,260	16,390	168,753

[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 health plans, exempt under section 529(a); and Coverdell education savings accounts, exempt under section 530(a). See Appendix A for additional information on the types of organizations that are required to file Form 990-T.

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

Generally, organizations that were organized as tax-exempt trusts derived larger percentages of their gross unrelated business incomes from investments. For example, traditional IRAs reported more than 90 percent of their gross unrelated business incomes as investment income.

Income Information, by Entity Type

Figure E further illustrates the differences between tax-exempt trusts and corporate filers. The latter group reported the majority of gross unrelated business income, total deductions, positive unrelated business taxable income, and unrelated business income tax. These corporate filers reported $9.5 billion in gross unrelated business income, $9.2 billion in total deductions, and $338.4 million in unrelated business income tax.

While representing less than one-quarter of Form 990-T filers, trusts reported higher amounts of total investment income and net unrelated business taxable income (less deficit) than their corporate counterparts. Of the $3.1 billion in investment income received by tax-exempt organizations, more than half was reported by trusts. Overall, trusts reported 93 percent of their gross unrelated business incomes as investment income, compared to less than 15 percent for corporations. More than 74 percent of net unrelated business taxable income that was reported for Tax Year 2006 was attributable to trusts. They reported approximately 39 percent of total unrelated business income tax for Tax Year 2006.

Summary

Tax-exempt organizations reported more than $11 billion in gross unrelated business income for Tax Year 2006. Total unrelated business income tax liability increased by 2.3 percent from Tax Year 2005 to $555.7 million.

Charitable organizations, tax-exempt under section 501(c)(3), were the most common Form 990-T filers, representing nearly one-third of all organizations that filed the return for Tax Year 2006. These organizations reported 57 percent of all gross unrelated business income for the year, claimed 61 percent of deductions, and accounted for a little over half of all unrelated business income tax liability.

Nearly 79 percent of all Tax Year 2006 Forms 990-T were filed by tax-exempt organizations that paid taxes at the corporate rate, with tax-exempt trusts accounting for the remainder of filers. Filers classified as corporations reported the majority of gross unrelated business income, total deductions,

Figure E

Unrelated Business Income Tax Returns: Selected Unrelated Business Income Tax Data for Tax-Exempt Corporate and Trust Entities, Tax Year 2006

[Money amounts are in thousands of dollars]

Item	Type of entity		
	All	Corporation	Trust
	(1)	(2)	(3)
Number of returns	43,520	34,255	9,266
Gross unrelated business income	11,271,392	9,495,698	1,775,694
Total investment income [1]	3,053,769	1,411,124	1,642,644
Investment income to gross UBI ratio	27.0	15.0	93.0
Total deductions	9,987,940	9,166,518	821,422
Unrelated business taxable income (less deficit)	1,283,452	329,179	954,273
Unrelated business taxable income	2,176,235	1,185,304	990,931
Deficit	892,783	856,125	36,658
Unrelated business income tax	555,737	338,418	217,318
Total tax	556,285	339,483	216,803

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

positive unrelated business taxable income, and unrelated business income tax for Tax Year 2006. Tax-exempt trusts accounted for larger proportions of total investment income and net unrelated business taxable income.

Data Sources and Limitations

To report unrelated business income of $1,000 (the filing threshold) or more for Tax Year 2006, Internal Revenue Code section 220(e), 401(a), 408(e), 408A, and 530(a) trusts' required reporting period was Calendar Year 2006, and the Form 990-T filing deadline was April 15, 2007. For all other organizations, the required reporting period was any accounting period beginning in Calendar Year 2006 and, thus, ending between December 2006 and November 2007 for full-year return filers. The associated required due dates for filing Tax Year 2006 Forms 990-T generally fell between May 2007 to April 2008, but extensions of time to file beyond this period were routinely granted to many organizations. Corresponding to the required filing dates, the Tax Year 2006 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2007 and 2008. Because of the various accounting periods of the organizations filing a Tax Year 2006 return, the financial activities covered in this article span the period January 2006 through November 2007, although 61 percent of Form 990-T filers had Calendar Year 2006 accounting periods.

The population from which the Form 990-T sample was drawn consisted of Tax Year 2006 Form 990-T records posted to the IRS Business Master File system during 2007 and 2008. Generally, returns filed after Calendar Year 2008 were not included in the sample. However, in some cases, returns that were considered to be large income-size cases (over $500,000 or more of gross unrelated business income), were added after the close of the sampling period. A sample of 8,899 returns was selected from a population of 43,652. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 8,878 returns, and the estimated population size was 43,520. Rejected returns included those that had gross unrelated business income below the $1,000 filing threshold; were filed for a part-year 2006 accounting period, and a full-year 2006 return was also filed; or were filed for a part-year accounting period that began in a year other than 2006.

The Tax Year 2006 Statistics of Income (SOI) Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special "integrated" sample. The stratified random sample was designed to represent the entire population of Form 990-T filers reporting unrelated business income. The integrated sample was designed to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for section 501(c)(3) nonprofit charitable organizations that filed both Form 990 (or Form 990-EZ) 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. 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 selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the "integrated" Internal Revenue Code section 501(c)(3) portion of the Form 990-T sample.[4]

Returns in the Form 990-T sample frame were classified into two-dimensional strata, based on the size of gross unrelated business income in the Form 990-T population and the size of assets in the section 501(c)(3) Form 990/990-EZ population of returns having EINs that matched Form 990-T EINs. The designed sampling rates ranged from a minimum of 3.65 percent to a maximum of 100 percent.

The information presented in this article was obtained 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 IRS. Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by litigation. The data were subjected to comprehensive testing and correction procedures in order to improve statistical reliability and validity. In most cases, due to time constraints, changes made to the original return as a result of administrative processing, audit procedures, or a taxpayer amendment were not incorporated into the database.

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure F 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 and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *SOI Bulletin*.

Figure F

Unrelated Business Income Tax Returns: Coefficients of Variation for Selected Form 990-T Items, by Size of Gross Unrelated Business Income, Tax Year 2006

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income [1]	Total tax
	Coefficient of variation (percentage)				
	(1)	(2)	(3)	(4)	(5)
Total	**0.11**	**0.13**	**0.28**	**0.47**	**0.56**
$1,000 under $10,001 [2]	1.76	3.05	5.78	5.93	6.56
$10,001 under $100,000 [2]	2.09	1.79	2.61	5.05	5.81
$100,000 under $500,000	1.15	0.93	1.50	3.03	3.85
$500,000 or more	N/A	N/A	N/A	N/A	N/A

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

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

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

Explanation of Selected Terms

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

Advertising income—Gross income realized by a tax-exempt organization from the sale of advertising in a periodical was gross income from an unrelated trade or business activity involving the "exploitation of an exempt activity," namely, the circulation and subscriber base of the periodical developed by producing and distributing the mission-related content of that periodical. Advertising income was reported separately from other types of "exploited exempt activity income." (See the explanation of Exploited Exempt activity income.) Internal Revenue Code

[4] For additional information on the Forms 990 and 990-T integrated sample design, see Harte, James M. and Cecelia H. Hilgert (2002), "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*.

section 501(c)(7), (9), and (17) organizations reported gross advertising income, as well as other types of "exploited exempt activity income," as part of gross receipts from sales and services. All other organizations reported this income separately.

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

Charitable contributions—To the extent permissible under the Internal Revenue Code, a deduction was allowed for contributions or gifts actually paid within the tax year to, or for the use of, another entity that was a charitable or Governmental organization described in Code section 170(c). A tax-exempt corporation was allowed a deduction for charitable contributions up to 10 percent of its unrelated business taxable income computed without regard to the deduction for contributions. A tax-exempt trust was generally allowed a deduction for charitable contributions under the rules applicable to individual taxpayers, except the limit on the deduction was determined in relation to 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

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

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

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

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

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

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 Tax Year 2006, as shown in the following schedules. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
$ 0	$2,050	15%	$0
2,050	4,850	$307.50 + 25%	2,050
4,850	7,400	1,007.50 + 28%	4,850
7,400	10,050	1,721.50 + 33%	7,400
10,050	0	2,596 + 35%	10,050

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

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

Table 1. Unrelated Business Income Tax Returns: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2006

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

Type of tax-exempt organization, as defined by Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]	
			Number of returns	Amount
	(1)	(2)	(3)	(4)
All organizations	**43,520**	**11,271,392**	**43,304**	**9,987,940**
220(e) Archer Medical Savings Accounts	0	0	0	0
401(a) Qualified pension, profit-sharing, or stock bonus plans	729	342,987	703	108,773
408(e) Traditional Individual Retirement Arrangements	6,877	76,443	6,868	15,793
408(A) Roth Individual Retirement Arrangements	* 35	* 2,447	* 35	* 168
501(c)(2) Title-holding corporations for exempt organizations [6]	259	102,683	259	117,392
501(c)(3) Religious, educational, charitable, scientific, or literary organizations	14,157	6,455,264	14,115	6,098,288
501(c)(4) Civic leagues and social welfare organizations	1,650	632,440	1,650	541,550
501(c)(5) Labor, agricultural, and horticultural organizations	2,434	281,508	2,434	279,583
501(c)(6) Business leagues, chambers of commerce, and real estate boards	6,155	1,145,198	6,155	1,082,947
501(c)(7) Social and recreational clubs	6,547	735,052	6,463	655,470
501(c)(8) Fraternal beneficiary societies and associations	849	60,157	849	60,843
501(c)(9) Voluntary employees' beneficiary associations	708	993,086	707	564,190
501(c)(10) Domestic fraternal beneficiary societies and associations	391	27,494	391	26,468
501(c)(11) Teachers' retirement fund associations	0	0	0	0
501(c)(12) Benevolent life insurance associations and certain mutual companies	251	74,453	251	73,442
501(c)(13) Cemetery companies	* 69	* 4,432	* 69	* 3,547
501(c)(14) State-chartered credit unions	528	161,862	528	182,366
501(c)(15) Mutual insurance companies	d	d	d	d
501(c)(16) Corporations organized to finance crop operations	0	0	0	0
501(c)(17) Supplemental unemployment benefit trusts	0	0	0	0
501(c)(18) Employee-funded pension trusts	d	d	d	d
501(c)(19) War veterans' posts or organizations	1,834	166,963	1,779	170,100
501(c)(21) Black Lung Benefit Trusts [7]	0	0	0	0
501(c)(22) Withdrawal liability payment funds	0	0	0	0
501(c)(23) Veterans' associations founded before 1880	0	0	0	0
501(c)(24) Trusts described in section 4049 of ERISA	0	0	0	0
501(c)(25) Title-holding companies with no more than 35 shareholders	d	d	d	d
501(c)(26) High-risk health insurance plans	0	0	0	0
501(c)(27) Workers' compensation reinsurance plans	d	d	d	d
529(a) Qualified State Tuition Plans	0	0	0	0
530(a) Coverdell Education Savings Accounts	0	0	0	0

Footnotes at end of table.

Table 1. Unrelated Business Income Tax Returns: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2006—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	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
	(5)	(6)	(7)	(8)	(9)	(10)
All organizations	**34,995**	**1,283,452**	**22,191**	**2,176,235**	**22,107**	**556,285**
220(e) Archer Medical Savings Accounts	0	0	0	0	0	0
401(a) Qualified pension, profit-sharing, or stock bonus plans	671	234,214	648	236,846	645	56,812
408(e) Traditional Individual Retirement Arrangements	6,571	60,651	6,357	61,661	6,330	16,390
408(A) Roth Individual Retirement Arrangements	* 35	* 2,279	* 35	* 2,279	* 35	* 778
501(c)(2) Title-holding corporations for exempt organizations [6]	206	-14,709	123	16,637	123	5,247
501(c)(3) Religious, educational, charitable, scientific, or literary organizations	11,071	356,976	5,728	971,985	5,700	280,157
501(c)(4) Civic leagues and social welfare organizations	1,216	90,890	466	117,477	462	12,102
501(c)(5) Labor, agricultural, and horticultural organizations	1,832	1,924	839	29,325	834	7,939
501(c)(6) Business leagues, chambers of commerce, and real estate boards	4,300	62,251	2,071	122,844	2,112	40,498
501(c)(7) Social and recreational clubs	5,535	79,582	4,163	124,090	4,124	29,186
501(c)(8) Fraternal beneficiary societies and associations	619	-686	275	3,591	276	746
501(c)(9) Voluntary employees' beneficiary associations	429	428,896	340	459,266	340	98,872
501(c)(10) Domestic fraternal beneficiary societies and associations	263	1,026	108	2,554	108	670
501(c)(11) Teachers' retirement fund associations	0	0	0	0	0	0
501(c)(12) Benevolent life insurance associations and certain mutual companies	181	1,011	120	6,226	113	1,448
501(c)(13) Cemetery companies	* 64	* 884	* 39	* 1,458	* 39	* 447
501(c)(14) State-chartered credit unions	486	-20,505	165	9,981	165	2,985
501(c)(15) Mutual insurance companies	d	d	d	d	d	d
501(c)(16) Corporations organized to finance crop operations	0	0	0	0	0	0
501(c)(17) Supplemental unemployment benefit trusts	0	0	0	0	0	0
501(c)(18) Employee-funded pension trusts	d	d	d	d	d	d
501(c)(19) War veterans' posts or organizations	1,466	-3,137	666	7,640	652	1,260
501(c)(21) Black Lung Benefit Trusts [7]	0	0	0	0	0	0
501(c)(22) Withdrawal liability payment funds	0	0	0	0	0	0
501(c)(23) Veterans' associations founded before 1880	0	0	0	0	0	0
501(c)(24) Trusts described in section 4049 of ERISA	0	0	0	0	0	0
501(c)(25) Title-holding companies with no more than 35 shareholders	d	d	d	d	d	d
501(c)(26) High-risk health insurance plans	0	0	0	0	0	0
501(c)(27) Workers' compensation reinsurance plans	d	d	d	d	d	d
529(a) Qualified State Tuition Plans	0	0	0	0	0	0
530(a) Coverdell Education Savings Accounts	0	0	0	0	0	0

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.7 billion.

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

[3] Excludes data from 8,526 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 $5.5 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 website (http://www.irs.gov/taxstats/charitablestats/article/0,,id=97210,00.html).

Table 2. Unrelated Business Income Tax Returns: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2006

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**43,520**	**11,271,392**	**43,304**	**9,987,940**	**34,995**	**1,283,452**	**22,191**	**2,176,235**	**22,107**	**556,285**
$1,000 under $10,001 [6]	17,008	69,173	16,933	64,043	13,761	5,130	10,650	23,242	10,562	3,872
$10,001 under $100,000 [6]	14,879	555,353	14,758	525,006	12,064	30,347	6,680	125,484	6,645	23,724
$100,000 under $500,000	8,511	1,843,209	8,494	1,822,256	6,670	20,953	3,489	272,284	3,479	73,092
$500,000 under $1,000,000	1,409	974,450	1,407	930,975	1,142	43,475	638	143,186	641	42,679
$1,000,000 under $5,000,000	1,373	2,894,500	1,372	2,607,529	1,082	286,971	583	505,982	616	152,716
$5,000,000 or more	340	4,934,707	340	4,038,131	275	896,576	151	1,106,057	164	260,203

[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 $2.7 billion.

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

[3] Excludes data from 8,526 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 $5.5 million.

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

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

Table 3. Unrelated Business Income Tax Returns: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2006

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

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**43,520**	**11,271,392**	**43,304**	**9,987,940**	**34,995**	**1,283,452**	**22,107**	**556,285**
Deficit	12,804	3,760,795	12,804	4,653,578	12,804	-892,783	66	1,105
Zero [4]	8,526	2,461,318	8,526	2,461,318	0	0	195	1,634
$1 under $1,000	4,533	32,714	4,533	30,781	4,533	1,934	4,476	281
$1,000 under $10,000	9,064	283,139	8,989	248,089	9,064	35,050	8,898	6,244
$10,000 under $100,000	6,641	930,942	6,519	721,540	6,641	209,402	6,529	38,022
$100,000 under $500,000	1,424	898,623	1,407	600,461	1,424	298,163	1,418	91,204
$500,000 under $1,000,000	221	528,691	219	372,939	221	155,752	220	52,150
$1,000,000 or more	309	2,375,170	308	899,235	309	1,475,935	306	365,644

[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 $2.7 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 $5.5 million.

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

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

Table 4. Unrelated Business Income Tax Returns: Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2006

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	**22,191**	**5,049,279**	**21,975**	**2,873,044**	**2,176,235**	**21,846**	**553,545**
$1,000 under $10,001 [4]	10,650	39,437	10,575	16,195	23,242	10,505	3,823
$10,001 under $100,000 [4]	6,680	240,578	6,558	115,094	125,484	6,593	23,267
$100,000 under $500,000	3,489	769,148	3,473	496,864	272,284	3,401	72,282
$500,000 under $1,000,000	638	439,311	636	296,125	143,186	620	42,534
$1,000,000 under $5,000,000	583	1,200,004	582	694,022	505,982	579	151,940
$5,000,000 or more	151	2,360,800	151	1,254,743	1,106,057	149	259,699
TAX-EXEMPT CORPORATIONS							
Total	**14,158**	**3,777,913**	**14,005**	**2,592,609**	**1,185,304**	**13,881**	**336,983**
$1,000 under $10,001 [4]	4,579	20,473	4,532	8,943	11,530	4,467	1,687
$10,001 under $100,000 [4]	5,389	201,523	5,287	110,003	91,520	5,336	14,687
$100,000 under $500,000	3,056	672,278	3,053	480,003	192,275	2,967	49,301
$500,000 under $1,000,000	556	381,233	555	286,464	94,769	539	28,707
$1,000,000 under $5,000,000	469	946,223	469	639,824	306,398	465	100,607
$5,000,000 or more	109	1,556,184	109	1,067,372	488,812	107	141,993
TAX-EXEMPT TRUSTS							
Total	**8,033**	**1,271,366**	**7,970**	**280,435**	**990,931**	**7,965**	**216,562**
$1,000 under $10,001 [4]	6,071	18,964	6,044	7,252	11,712	6,038	2,136
$10,001 under $100,000 [4]	1,290	39,055	1,272	5,091	33,963	1,257	8,580
$100,000 under $500,000	434	96,870	419	16,861	80,010	434	22,981
$500,000 under $1,000,000	82	58,078	81	9,661	48,417	81	13,826
$1,000,000 under $5,000,000	114	253,781	113	54,198	199,583	114	51,333
$5,000,000 or more	42	804,617	42	187,371	617,245	42	117,706

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was $9.2 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 posititve unrelated business taxable income, total proxy tax was $4.2 million.

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

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

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

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All activities and groupings	**43,520**	**11,271,392**	**43,304**	**9,987,940**	**34,995**	**1,283,452**	**22,191**	**2,176,235**	**22,107**	**556,285**
Agriculture, forestry, hunting, and fishing	168	29,318	168	16,908	120	12,410	76	14,116	76	4,531
Mining	422	53,040	421	23,180	359	29,860	323	30,096	311	7,339
Utilities	56	15,667	56	15,366	52	301	* 6	* 1,445	* 6	* 470
Construction	100	88,719	100	77,492	88	11,228	86	11,628	86	3,578
Manufacturing	232	103,143	226	57,685	168	45,458	152	47,461	152	15,571
Wholesale trade	89	29,603	89	8,627	88	20,977	80	21,652	80	5,635
Retail trade	1,188	803,320	1,188	818,537	891	-15,217	436	45,188	420	14,201
Transportation and warehousing	21	10,314	21	8,718	20	1,596	d	d	d	d
Information	748	222,826	748	202,570	507	20,255	184	36,592	181	11,097
Finance and insurance, total	14,453	2,746,198	14,293	1,714,225	12,820	1,031,973	11,421	1,181,811	11,361	294,339
Unrelated debt-financed activities, other than rental of real estate	1,162	340,859	1,128	119,443	1,090	221,415	997	230,478	997	62,918
Investment activities of Code section 501(c)(7), (9), and (17) organizations [6]	3,627	1,123,305	3,544	657,680	2,970	465,625	2,711	497,336	2,713	107,332
Passive income activities with controlled organizations	369	215,003	369	180,138	286	34,865	259	67,675	262	14,744
Other finance and insurance	9,295	1,067,032	9,252	756,964	8,473	310,068	7,454	386,323	7,388	109,345
Real estate and rental and leasing, total	6,926	1,202,664	6,906	1,021,606	5,930	181,058	3,391	312,447	3,395	78,614
Rental of personal property	357	72,764	357	75,771	315	-3,008	208	4,536	210	1,075
Other real estate and rental and leasing	6,569	1,129,901	6,549	945,835	5,614	184,066	3,183	307,911	3,184	77,538
Professional, scientific, and technical services	8,434	2,078,757	8,434	2,063,077	5,584	15,680	2,353	154,922	2,410	49,926
Management of companies and enterprises	71	34,137	71	9,761	68	24,376	60	26,573	60	5,355
Administrative and support and waste management and remediation services	933	456,512	932	470,698	723	-14,187	221	27,667	224	8,747
Educational services	25	48,983	25	60,044	22	-11,061	d	d	d	d
Healthcare and social assistance	974	1,548,167	973	1,524,065	792	24,102	391	154,901	415	30,011
Arts, entertainment, and recreation	4,768	871,610	4,768	925,773	3,527	-54,163	1,531	45,675	1,515	10,987
Accommodation and food services	3,023	699,295	2,995	735,871	2,497	-36,576	1,013	41,362	979	9,498
Other services	490	124,981	490	139,868	424	-14,887	232	7,521	233	1,949
Exploited exempt activities	296	101,936	296	92,194	229	9,743	142	11,795	142	3,456
Not allocable	* 104	* 2,201	* 104	* 1,674	* 86	* 526	* 86	* 526	* 57	* 15

*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 $2.7 billion.

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

[3] Excludes data from 8,526 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 $5.5 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.

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

Table 6. Unrelated Business Income Tax Returns: Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2006

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI)		Sources of gross unrelated business income (UBI): Gross profit (less loss) from sales and services		Sources of gross unrelated business income (UBI): Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**43,520**	**11,271,392**	**16,538**	**5,300,214**	**2,765**	**1,018,483**
$1,000 under $10,001 [1]	17,008	69,173	3,169	12,616	1125	3,813
$10,001 or more, total [1]	**26,512**	**11,202,219**	**13,369**	**5,287,598**	**1,640**	**1,014,670**
$10,001 under $100,000	14,879	555,353	6,347	220,660	902	18,971
$100,000 under $500,000	8,511	1,843,209	5,060	929,439	436	70,103
$500,000 under $1,000,000	1,409	974,450	913	516,644	93	35,750
$1,000,000 under $5,000,000	1,373	2,894,500	830	1,465,258	154	194,289
$5,000,000 or more	340	4,934,707	219	2,155,597	55	695,557

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI)—continued: Net capital loss (trusts only)		Net gain (less loss), sales of noncapital assets [2]		Income (less loss) from partnerships and S corporations	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**61**	**164**	**282**	**9,975**	**9,814**	**665,194**
$1,000 under $10,001 [1]	0	0	* 84	* 418	6,394	16,054
$10,001 or more, total [1]	**61**	**164**	**198**	**9,557**	**3,420**	**649,140**
$10,001 under $100,000	d	d	* 36	* -3,319	1,966	44,533
$100,000 under $500,000	20	44	100	2,600	826	75,939
$500,000 under $1,000,000	* 6	* 18	15	106	185	39,905
$1,000,000 under $5,000,000	13	37	35	8,784	315	194,149
$5,000,000 or more	d	d	12	1,386	128	294,614

Footnotes at end of table.

Table 6. Unrelated Business Income Tax Returns: Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2006—Continued

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

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI)—continued: Rental income [3]		Unrelated debt-financed income		Investment income (less loss) [4]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,364**	**290,065**	**3,676**	**526,543**	**5,738**	**843,549**
$1,000 under $10,001 [1]	1,063	4,826	1227	5,147	2,464	8,768
$10,001 or more, total [1]	**3,301**	**285,239**	**2,449**	**521,396**	**3,274**	**834,781**
$10,001 under $100,000	2,086	56,877	1,277	41,054	1,467	27,353
$100,000 under $500,000	905	80,001	841	122,855	1,325	88,997
$500,000 under $1,000,000	151	40,821	135	53,822	288	57,222
$1,000,000 under $5,000,000	131	67,022	151	134,501	166	191,766
$5,000,000 or more	28	40,518	45	169,164	28	469,443

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI)—continued: 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
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	**963**	**116,475**	**984**	**205,866**	**8,532**	**1,500,512**	**5,391**	**794,684**
$1,000 under $10,001 [1]	239	622	178	1,002	2,900	12,339	1,116	3,568
$10,001 or more, total [1]	**724**	**115,853**	**806**	**204,864**	**5,632**	**1,488,173**	**4,275**	**791,116**
$10,001 under $100,000	374	7,910	312	6,903	3,079	91,031	2,037	43,438
$100,000 under $500,000	231	18,538	307	34,501	1,853	284,264	1,654	136,016
$500,000 under $1,000,000	39	7,433	67	22,609	306	141,401	247	58,755
$1,000,000 under $5,000,000	59	25,194	95	65,811	323	385,429	266	162,335
$5,000,000 or more	21	56,778	25	75,040	71	586,048	71	390,572

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

[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.

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

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

Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2006

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

Item	Size of gross unrelated business income						
	All		$1,000 under $10,001 [3]		$10,001 under $100,000 [3]		$100,000 under $500,000
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns	**43,520**	**N/A**	**17,008**	**N/A**	**14,879**	**N/A**	**8,511**
Total deductions	**43,304**	**9,987,940**	**16,933**	**64,043**	**14,758**	**525,006**	**8,494**
Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]							
Total deductions [2,4]	**16,933**	**60,228**	**16,933**	**64,043**	**N/A**	**N/A**	**N/A**
Net operating loss deduction	1,280	2,810	1,280	2,810	N/A	N/A	N/A
Specific deduction	11,850	11,182	11,850	11,182	N/A	N/A	N/A
Organizations with gross unrelated business income (UBI) of $10,001 or more [3]							
Total deductions [2,5]	**26,371**	**10,352,793**	**N/A**	**N/A**	**14,758**	**529,249**	**8,494**
Deductions directly connected with UBI	**24,200**	**9,434,478**	**N/A**	**N/A**	**12,964**	**495,906**	**8,201**
Allocable to rental income [6]	1,711	199,744	N/A	N/A	1,079	27,298	439
Allocable to unrelated debt-financed income [6]	2,268	536,419	N/A	N/A	1,176	46,061	788
Allocable to investment income [6,7]	1,409	556,868	N/A	N/A	464	8,936	602
Allocable to income from controlled organizations [6]	411	119,378	N/A	N/A	214	6,076	117
Allocable to exploited exempt activity income, except advertising [6]	738	154,556	N/A	N/A	307	6,185	256
Direct advertising costs [6]	5,044	1,045,388	N/A	N/A	2,704	74,069	1,673
Compensation of officers, directors, and trustees	2,057	61,455	N/A	N/A	776	7,501	949
Salaries and wages	10,936	1,816,685	N/A	N/A	4,648	91,447	4,525
Repairs and maintenance	7,906	121,424	N/A	N/A	3,518	13,515	3,240
Bad debts	890	47,540	N/A	N/A	157	395	401
Interest	3,126	79,652	N/A	N/A	1,262	7,725	1,335
Taxes and licenses paid deduction	11,690	228,936	N/A	N/A	5,538	20,486	4,551
Depreciation	7,709	251,022	N/A	N/A	3,304	18,232	3,120
Depletion	141	6,040	N/A	N/A	102	722	16
Contributions to deferred compensation plans	1,178	14,558	N/A	N/A	269	353	591
Contributions to employee benefit programs	5,508	265,640	N/A	N/A	1,760	7,299	2,458
Net operating loss deduction	3,623	268,312	N/A	N/A	1,714	18,343	1,359
Other deductions	15,565	3,660,865	N/A	N/A	7,576	141,263	5,703
Deductions not directly connected with UBI	14,394	918,316	**N/A**	**N/A**	**8,118**	**8,118**	**4,560**
Specific deduction	12,060	11,594	N/A	N/A	7,075	7,075	3,622
Charitable contributions	2,527	117,231	N/A	N/A	1,283	1,283	837
Set-asides [7]	358	427,269	N/A	N/A	126	2,616	134
Excess exempt-activity expenses [8]	2,638	362,220	N/A	N/A	1,197	18,791	1,012

Footnotes at end of table.

Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2006—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	
	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Number of returns	**N/A**	**1,409**	**N/A**	**1,373**	**N/A**	**340**	**N/A**
Total deductions	**1,822,256**	**1,407**	**930,975**	**1,372**	**2,607,529**	**340**	**4,038,131**
Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]							
Total deductions [2,4]	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net operating loss deduction	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
Organizations with gross unrelated business income (UBI) of $10,001 or more [3]							
Total deductions [2,5]	**1,865,794**	**1,407**	**948,854**	**1,372**	**2,706,609**	**340**	**4,302,287**
Deductions directly connected with UBI	**1,742,745**	**1,376**	**891,408**	**1,335**	**2,476,461**	**324**	**3,827,957**
Allocable to rental income [6]	59,711	89	33,398	81	47,591	23	31,745
Allocable to unrelated debt-financed income [6]	131,024	127	53,111	136	141,178	41	165,045
Allocable to investment income [6,7]	53,114	200	24,585	124	113,250	20	356,983
Allocable to income from controlled organizations [6]	13,543	26	6,355	38	19,382	16	74,022
Allocable to exploited exempt activity income, except advertising [6]	29,121	63	17,354	90	48,763	22	53,134
Direct advertising costs [6]	199,048	290	107,068	313	260,023	64	405,180
Compensation of officers, directors, and trustees	23,152	161	8,822	129	8,907	42	13,061
Salaries and wages	396,936	820	202,933	749	518,814	194	606,555
Repairs and maintenance	35,313	542	13,771	486	30,073	122	28,752
Bad debts	3,831	110	1,642	164	15,231	58	26,441
Interest	17,297	253	8,255	217	27,368	59	19,008
Taxes and licenses paid deduction	76,878	759	29,122	666	49,459	176	52,991
Depreciation	59,489	566	35,123	560	66,920	159	71,258
Depletion	959	13	1,048	6	851	4	2,460
Contributions to deferred compensation plans	2,305	171	1,860	126	6,110	21	3,930
Contributions to employee benefit programs	37,171	549	25,018	579	93,659	162	102,493
Net operating loss deduction	54,050	213	21,242	274	71,758	63	102,928
Other deductions	549,804	1,018	300,702	1,006	957,124	262	1,711,972
Deductions not directly connected with UBI	**123,049**	**772**	**57,446**	**747**	**230,148**	**197**	**474,330**
Specific deduction	3,491	639	629	575	575	149	149
Charitable contributions	10,841	134	6,661	192	23,919	81	70,624
Set-asides [7]	43,538	36	17,879	52	99,080	10	264,156
Excess exempt-activity expenses [8]	65,179	163	32,276	215	106,573	51	139,401

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

N/A—Not applicable.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $3.0 billion.

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

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

[4] Excludes $62.3 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 $3.0 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."

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

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

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