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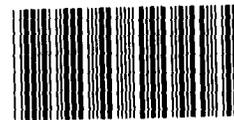
Testimony

For Release
on Delivery
Expected at
12 noon, EDT
June 22, 1987

Tax-Exempt Organizations and the Unrelated
Business Income Tax

Statement of
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Before the
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into the nature and extent of commercial and other income-producing activities of tax-exempt organizations and the use of the unrelated business income tax to deal with those activities. Our statement is based primarily upon work we have done in the unrelated business income area over the last several years for this Subcommittee and for the Joint Committee on Taxation.¹

I would like to highlight three major points:

-- First, Internal Revenue Service (IRS) data, media reports, and information we gathered from the tax-exempt and taxable business communities indicate that tax-exempts are increasingly reliant on income-producing or commercial activities to generate revenue. However, there are no complete data to quantify the nature and extent of tax-exempt organizations' involvement in these activities and most of the data that are available are old. Consequently, it is difficult to determine if these

¹Tax Policy: Competition Between Taxable Businesses and Tax-Exempt Organizations, GAO/GGD-87-40BR, February 27, 1987; IRS' Examination Selection System for Exempt Organizations' Unrelated Business Income, GAO/GGD-85-64, July 8, 1985; Statistical Data on Tax-Exempt Organizations Earning Unrelated Business Income, GAO/GGD-85-43, March 29, 1985.

activities are resulting in widespread competition between the taxable business and tax-exempt communities.

-- Second, in 1950, Congress established the unrelated business income tax that is imposed on commercial activities not substantially related to a tax-exempt organization's exempt purpose. This tax, however, is not imposed on activities related to the exempt purpose, regardless of their competitive nature. Administering this tax can be difficult because of the individual circumstances that must be considered to determine whether an activity is substantially related to an exempt purpose.

-- Third, IRS' selection of unrelated business income tax returns for examination can be improved. Because IRS does not have information on those organizations least likely to comply with this tax, it cannot routinely identify the most noncompliant organizations for examination. For returns examined in fiscal years 1981 through 1983, 3 percent yielded 90 percent of the additional recommended assessments.

TAX-EXEMPT ORGANIZATION ACTIVITIES

Data on the activities of tax-exempt organizations are limited. Data that are available indicate that the tax-exempt community has grown significantly over the years in numbers, types of activities, and financial resources. For example:

- IRS' master file as of October 1986, included over 840,000 active tax-exempt organizations, not including religious organizations. They are exempt under 25 broad categories and report engaging in 1 or more of over 260 activities, such as educational, cultural, historical, and health service.

- Internal Revenue Code section 501(c)(3) organizations, such as those engaged in charitable, religious, educational, and health activities, dominate the tax-exempt community. As of October 1986, about 44 percent of all tax-exempt organizations in IRS' Exempt Organization/Business Master File were section 501(c)(3) organizations.

- A few large organizations have controlled the majority of assets and revenues. For example, a 1975 IRS study showed that 1 percent of all tax-exempt organizations

accounted for about 60 percent of the community's total revenues.

Available data on the specific income-producing or commercial activities of tax-exempt organizations is not adequate to determine the extent of reliance of the tax-exempt community on these activities to generate revenues. These revenues include business receipts, interest, dividends, rents, royalties, and other income. However, a 1975 IRS study showed that about 50 percent of tax-exempt organizations filing returns reported revenues from business receipts. Other IRS data show that tax-exempt organizations' other revenue sources which include business receipts, interest, and dividends, increased from 57 percent in 1946 to 75 percent in 1978. In this same period, contributions decreased as a percent of total revenue from 17 percent to 13 percent. (See app. I.) Unfortunately, this is the most current overall aggregated data that we are aware of regarding tax-exempt organizations.

This trend toward less reliance upon contributions seems to be even more pronounced among section 501(c)(3) organizations, such as charitable, educational, and scientific organizations (see app. II). Some of these organizations, such as hospitals and educational institutions, have traditionally placed substantial reliance on charging fees for their services. However, it now appears that some other nonprofits, such as social service

agencies and humane societies, are increasingly reliant on charging fees for services. We found that members of the tax-exempt community view fees for services and expansion into income-producing activities as a means of furthering their exempt purposes. As reasons for the increase in these activities, they frequently cite reductions in government funds and increased demand for services, part of which they attribute to changes in federal budget priorities.

Some business people told us that this apparent increase in income-producing activities is a source of unfair competition. They perceive that such activities exceed the traditional role of tax-exempt organizations. They believe that tax-exempt status and such benefits as reduced mailing rates afford tax-exempt organizations a competitive advantage. Our survey of members of the Business Coalition for Fair Competition and six industry groups that seemed to voice the most concern about competition-- audio-visual, racquet sports, research and testing, tour, travel, and veterinarian--showed varied perceptions as to the extent of competition. For example, 90 percent of racquet sports businesses but only 45 percent of travel agencies reported experiencing competition from one or more tax-exempt organizations.

Members of the tax-exempt community told us that competition, while not new, appears to be increasing. To them, competition has resulted more from taxable businesses entering

traditionally tax-exempt areas than from tax-exempt organizations increasing income-producing activities. Our survey indicated that 94 percent of the racquet sports businesses and 42 percent of the research and testing businesses established their activities after 1970. Two major tax-exempt associations attribute this overall trend to third-party and government funding for social services which they believe have made it profitable for taxable businesses to operate in traditionally tax-exempt areas. They point to day care, family counseling, and hospital services.

In addition to providing similar services as taxable businesses, tax-exempt organizations are engaging in commercial activities with taxable businesses through partnerships and joint ventures. For example, charitable organizations have participated in real estate development projects with private sector partners to build and manage low-income and elderly housing. IRS program officials are concerned that a charitable organization's general partnership interests may conflict with the statutory requirement that section 501(c)(3) organizations be operated exclusively for public, charitable purposes. IRS has issued General Counsel memoranda and private letter rulings on this issue. IRS has no accumulated data on the extent of such ventures, but plans to gather information on the unrelated business activity of these ventures as part of its planned Taxpayer Compliance Measurement Program for unrelated business income tax.

THE UNRELATED BUSINESS INCOME
TAX AND ITS ADMINISTRATION

In 1950, Congress enacted legislation that imposed the unrelated business income tax--a tax on income from activities not substantially related to the tax-exempt organization's purpose. This legislation was to address a perceived unfair competitive advantage enjoyed by certain tax-exempt organizations and to prevent a potential loss of tax revenue. The tax was not imposed on income derived from any activity related to an organization's exempt purpose regardless of its competitive nature. For example, fees for medical services provided to patients in a tax-exempt hospital are not taxed.

The unrelated business income tax is imposed under Internal Revenue Code sections 511, 512, 513, and 514. Section 511 provides for a tax on unrelated business taxable income, 512 defines unrelated business taxable income, 513 defines an unrelated trade or business and 514 deals with income derived from debt-financed property. Under IRS regulations, for an activity to be subject to this tax, the following criteria apply:

- It must be a trade or business. This is generally any activity carried on for the production of income from the sale of goods or the performance of services.

-- It must be regularly carried on. A trade or business is regularly carried on if it is similar to commercial activities of a nonexempt organization with respect to frequency, continuity, and manner of pursuit.

-- It must not be substantially related to the organization's exempt purpose. A trade or business is not substantially related if a causal relationship does not exist between the business and achievement of an exempt purpose. There is a substantial relationship when the business contributes importantly to the exempt purpose, other than through the production of income.

Congress has enacted many exceptions to the unrelated business income tax. The 1950 legislation, for example, excluded any activity

-- where substantially all work is performed without compensation;

-- which is carried on by a section 501(c)(3) organization primarily for the convenience of its members, students, patients, officers, or employees; or

-- that consists of selling contributed merchandise.

Income from these activities is not taxed regardless of any competition with taxable businesses, regularity of operation, or lack of relatedness to an exempt purpose. These exceptions were inserted to protect such activities as university dining halls and thrift shops that sell donated goods.

The 1950 legislation also excepted three categories of research--research for a government, research by colleges and hospitals for others, and in the case of an organization primarily conducting basic research, all research activities. In addition, various types of incomes were excluded: dividends, interest, annuities, royalties, rents from real and personal property (subject to exceptions), and capital gains and losses. The legislative history shows that Congress granted these exclusions because these types of income had "long been recognized as proper for educational and charitable organizations," and "investments of this sort are not likely to result in serious competition for taxable business having similar income." Other exceptions have been enacted over the years. Examples include the 1978 exception for bingo games when such games are not available on a commercial basis and the 1986 exception for the sale of mailing lists among charities.

In administering the unrelated business income tax, it is often difficult for IRS to determine whether the income-producing or commercial activity is not substantially related to the exempt

purpose and therefore subject to the tax. IRS officials noted that there are no concrete rules for determining the relatedness of such activities to an organization's exempt purpose. Each income-producing activity must be considered in relation to the organization's exempt purpose.

For example, IRS initially ruled veterinary services offered for a fee by a humane society to be an ordinary commercial activity that had no causal relationship to the society's exempt purpose of preventing cruelty to animals. The fees were therefore subject to the tax. Subsequently, IRS redetermined that the veterinary services offered for a fee by this humane society were related to the organization's exempt purpose and not subject to the tax. Initially, IRS considered that the fee-for-service activity was too substantial in relation to the organization's other activities. Later, IRS redetermined that the organization had maintained a proper balance between its fee-for-service activities and its exempt purpose and did not aggressively promote the activities conducted for a fee.

Another problem associated with this tax is that once an activity is determined unrelated to the exempt purpose and therefore subject to the tax, accounting for the revenue and expenses associated with the unrelated activity is sometimes difficult. For example, when a tax-exempt organization conducts various types of activities, some tax-exempt and some subject to

the tax, allocating the amount of income and expenses attributable to each activity can be difficult.

Business people told us that the unrelated business income tax is too ambiguous and contains too many exceptions to adequately address the competitive activities of tax-exempt organizations. They suggested various changes to the unrelated business income tax. For example:

- Eliminate or restrict various exceptions that currently exist under the law.
- Establish an allowable parameter for unrelated business income, such as a percent of total operating revenue that, when exceeded, would result in loss of tax-exempt status.
- Establish competition as a criterion for determining the applicability of the unrelated business income tax.
- Impose the highest marginal corporate tax rate on all income subject to this tax.
- Revise the regulations to clarify what constitutes a substantially related business.

On the other hand, members of the tax-exempt community told us that the unrelated business income tax is the proper framework for determining the taxable income of tax-exempt organizations. They believe that IRS and national tax-exempt organization associations should provide more information to tax-exempt organizations on the unrelated business income tax requirements to avoid misunderstandings and incorrect returns.

COMPLIANCE WITH THE UNRELATED
BUSINESS INCOME TAX

The Office of the Assistant Commissioner (Employee Plans and Exempt Organizations) has overall responsibility for monitoring compliance with the unrelated business income tax law. In general, tax-exempt organizations (except churches and certain church affiliates) with annual gross receipts in excess of \$25,000 are required to file an annual information return--Form 990 (see app. III). Any organizations that earn unrelated business gross income in excess of \$1,000 must file Form 990-T (see app. IV).

In calendar year 1986, tax-exempt organizations filed over 345,000 Forms 990 and over 27,000 unrelated business income tax returns--Forms 990-T (see app. V for the numbers of Forms 990 and 990-T filed during the last three calendar years). IRS program officials told us that when properly completed, Forms 990 and

990-T are adequate to monitor unrelated business income. However, these officials said that the information reported on the Form 990 may not be as detailed as the instructions require, particularly as to the specific sources of income and the relationship of such income to the exempt purposes of the organization. They also said that due to the complexity of the law, the 990-T, with its various schedules designed to reflect unrelated business income, may be difficult for some organizations to complete--particularly those organizations that do not have professional accounting assistance. Our work did not identify any particular shortcomings with the Form 990-T that would hinder IRS' compliance efforts.

In 1985 we reported (GAO/GGD-85-64) that IRS could improve the examination selection system for unrelated business income tax returns. Under IRS' procedures, unrelated business income tax returns are examined usually as part of routine examinations for overall tax-exempt law compliance. IRS does not attempt to identify unrelated business income tax returns most in need of examination. Our analysis showed that IRS assessed about \$42 million in additional tax and penalties as a result of examining 8,850 unrelated business income returns in fiscal years 1981 through 1983. However, 56 percent of these examinations yielded no additional assessments; 41 percent yielded about \$4 million in additional assessments; and 3 percent yielded almost 90 percent,

or about \$38 million, of the total of \$42 million in additional assessments.

Similarly, in fiscal year 1986, IRS examined 3,324 unrelated business income tax returns. These examinations resulted in additional recommended tax and penalties of over \$57 million, \$33 million of which resulted from the examination of two related organizations. The main issue in these two cases was acquisition indebtedness from real estate transactions. IRS officials told us that as a result of appeals, less than \$1 million of this \$33 million would be collected. (App. VI shows the number of examinations for unrelated business income by 501(c) category for fiscal years 1985 and 1986. App. VII shows the various types of unrelated business activities and associated IRS codes which are used for reporting purposes.)

IRS does not have enough information on noncompliance with the unrelated business income tax. With more information on noncompliance, IRS could select and examine those unrelated business income tax returns with the most potential for noncompliance. In that way, IRS may promote greater compliance and assess similar or higher amounts of tax with fewer examinations.

IRS agreed with us that more could be done to improve the selection and examination of unrelated business income tax returns. In fiscal year 1988, IRS plans to begin a Taxpayer

Compliance Measurement Program specifically for unrelated business income. This effort should result in better information on the nature and extent of unrelated business income and compliance with the unrelated business income tax. This program is scheduled for completion in fiscal year 1992. In the interim, IRS is collecting some limited data from a sample of unrelated business income tax returns. The main purpose is to get a better idea of the gross income, expenses, and other monetary amounts reported by tax-exempt organizations that earn unrelated business income.

CONCLUSION

Tax-exempt organizations appear to be increasingly reliant on income-producing or commercial activities to generate revenues. Various business people are concerned about the increase in these activities, especially those activities not subject to the unrelated business income tax. By law, the unrelated business income tax is imposed on income-producing activities if they are not substantially related to the exempt purpose. The tax is not imposed on activities that are substantially related to the exempt purpose, regardless of whether they compete with taxable businesses. Currently, complete data do not exist to measure the nature and extent of such income-producing activities and to show how significant the competition is between the taxable business and tax-exempt communities. Without such

information, it is difficult to determine whether any changes are needed in the unrelated business income tax to address the competition issue.

Problems with administering the unrelated business income tax may be exacerbated in the future. Tax-exempt organization members said if they continue to experience decreases in government support, they may become even more reliant on private support and income-producing activities to generate revenue. Private support may decline in the future because recent tax law changes are expected to reduce the incentive for charitable giving. Therefore, tax-exempt organizations will most likely rely more upon income-producing or commercial activities that might be subject to this tax to fund their operations.

This concludes my prepared statement. We would be pleased to respond to your questions.

Major Revenue Sources for
1946, 1975, 1977, and 1978
(amounts in billions)

<u>Year</u>	<u>Contributions</u>		<u>Dues and assessments</u>		<u>Other revenue</u>		<u>Total</u>	
	<u>amount</u>	<u>percent</u>	<u>amount</u>	<u>percent</u>	<u>amount</u>	<u>percent</u>	<u>amount</u>	<u>percent</u>
1946	\$.6	17	\$.9	26	\$ 2.0	57	\$ 3.5	100
1975	20.5	18	19.3	17	74.8	65	114.6	100
1977	24.0	14	24.7	14	127.8	72	176.5	100
1978	31.3	13	29.1	12	178.0	75	238.4	100

Source: Data for 1946, 1977, and 1978 are based upon returns filed with IRS for those years. Data for 1975 are estimates based upon an IRS Statistics of Income Division statistical sample.

Major Revenue Sources for
Section 501(c)(3) Organizations
in 1946, 1975, and 1982

<u>Source of revenue</u>	<u>1946</u>		<u>1975^a</u>		<u>1982</u>	
	<u>Amount (000)</u>	<u>Percent of total</u>	<u>Amount (000)</u>	<u>Percent of total</u>	<u>Amount (000)</u>	<u>Percent of total</u>
Contributions	\$ 446,227	36	\$18,326,410	27	\$ 41,272,718	18
Dues and assessments	61,990	5	1,530,659	2	2,476,708	1
Other	<u>741,074</u>	59	<u>48,950,500</u>	71	<u>190,460,291</u>	81
Total revenue	<u>\$1,249,291</u>	100	<u>\$68,807,569</u>	100	<u>\$234,209,717</u>	100

Source: IRS Statistics of Income Division studies.

^aIncludes private foundations.

Form **990**

Return of Organization Exempt From Income Tax

OMB No. 1545-0047

Department of the Treasury
Internal Revenue Service

Under section 501(c) (except black lung benefit trust or private foundation)
of the Internal Revenue Code or section 4947(a)(1) trust

1986

Note: You may be required to use a copy of this return to satisfy state reporting requirements. See instruction D.

For the calendar year 1986, or fiscal year beginning

1986, and ending

19

Use IRS label. Otherwise, please print or type.	Name of organization	A Employer identification number (see instruction L)
	Address (number and street)	B State registration number (see instruction D)
	City or town, state, and ZIP code	C Section 4947(a)(1) trusts filing this form in lieu of Form 1041, check here <input type="checkbox"/> (see instruction C10)

D Check type of organization—Exempt under section 501(c) () (insert number), OR section 4947(a)(1) trust Check here if application for exemption is pending

E Accounting method: Cash Accrual Other (specify)

F Is this a group return (see instruction J) filed for affiliates? Yes No
If "Yes," enter the number of affiliates for which this return is filed _____

G If "Yes" to either, give four-digit group exemption number (GEN)

Is this a separate return filed by a group affiliate? Yes No

H Check here if your gross receipts are normally not more than \$25,000 (see instruction B11). You do not have to file a completed return with IRS but should file a return without financial data if you were mailed a Form 990 Package (see instruction A). Some states may require a completed return

I Check here if gross receipts are normally more than \$25,000 and line 12 is \$25,000 or less. Complete Parts I (except lines 13-15), III, IV, VI, and VII and only the indicated items in Parts II and V (see instruction I). If line 12 is more than \$25,000, complete the entire return.

501(c)(3) organizations and 4947(a)(1) trusts must also complete and attach Schedule A (Form 990). (See instructions.)

These columns are optional—see instructions

Part I Statement of Support, Revenue, and Expenses and Changes in Fund Balances		(A) Total	(B) Unrestricted/Expendable	(C) Restricted/Nonexpendable
Support and Revenue	1 Contributions, gifts, grants, and similar amounts received:			
	a Direct public support			
	b Indirect public support			
	c Government grants			
	d Total (add lines 1a through 1c) (attach schedule—see instructions)			
	2 Program service revenue (from Part IV, line f)			
	3 Membership dues and assessments			
	4 Interest on savings and temporary cash investments			
	5 Dividends and interest from securities			
	6a Gross rents			
	b Minus: rental expenses			
	c Net rental income (loss)			
7 Other investment income (Describe <input type="checkbox"/>)				
8a Gross amount from sale of assets other than inventory	Securities			
	Other			
	b Minus: cost or other basis and sales expenses			
c Gain (loss) (attach schedule)				
9 Special fundraising events and activities (attach schedule—see instructions):				
a Gross revenue (not including \$ _____ of contributions reported on line 1a)				
b Minus: direct expenses				
c Net income (line 9a minus line 9b)				
10a Gross sales minus returns and allowances				
b Minus: cost of goods sold (attach schedule)				
c Gross profit (loss)				
11 Other revenue (from Part IV, line g)				
12 Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8c, 9c, 10c, and 11)				
Expenses	13 Program services (from line 44, column (B)) (see instructions)			
	14 Management and general (from line 44, column (C)) (see instructions)			
	15 Fundraising (from line 44, column (D)) (see instructions)			
	16 Payments to affiliates (attach schedule—see instructions)			
	17 Total expenses (add lines 16 and 44, column (A))			
Fund Balances	18 Excess (deficit) for the year (subtract line 17 from line 12)			
	19 Fund balances or net worth at beginning of year (from line 74, column (A))			
	20 Other changes in fund balances or net worth (attach explanation)			
	21 Fund balances or net worth at end of year (add lines 18, 19, and 20)			

Part IV	Program Service Revenue and Other Revenue (State Nature)	Program	Other
		service revenue	revenue
a	Fees from government agencies		
b			
c			
d			
e			
f	Total program service revenue (enter here and on line 2)		
	Total other revenue (enter here and on line 11)		

Part V Balance Sheets If line 12 or Column (B) of line 59 is more than \$25,000, complete the entire balance sheet. If line 12, Part I, and Column (B) of line 59 are \$25,000 or less, you may complete only lines 59, 66, 74, and 75. See instructions.

Note: Columns (C) and (D) are optional. Columns (A) and (B) must be completed to the extent applicable. Where required, attached schedules should be for end-of-year amounts only.	(A) Beginning of year	End of year		
		(B) Total	(C) Unrestricted Expendable	(D) Restricted Nonexpendable
Assets				
45	Cash—non-interest bearing			
46	Savings and temporary cash investments			
47	Accounts receivable ▶ _____ minus allowance for doubtful accounts ▶ _____			
48	Pledges receivable ▶ _____ minus allowance for doubtful accounts ▶ _____			
49	Grants receivable			
50	Receivables due from officers, directors, trustees, and key employees (attach schedule)			
51	Other notes and loans receivable ▶ _____ minus allowance for doubtful accounts ▶ _____			
52	Inventories for sale or use			
53	Prepaid expenses and deferred charges			
54	Investments—securities (attach schedule)			
55	Investments—land, buildings and equipment: basis ▶ _____ minus accumulated depreciation ▶ _____ (attach schedule)			
56	Investments—other (attach schedule)			
57	Land, buildings and equipment: basis ▶ _____ minus accumulated depreciation ▶ _____ (attach schedule)			
58	Other assets ▶ _____			
59	Total assets (add lines 45 through 58)			
Liabilities				
60	Accounts payable and accrued expenses			
61	Grants payable			
62	Support and revenue designated for future periods (attach schedule)			
63	Loans from officers, directors, trustees, and key employees (attach schedule)			
64	Mortgages and other notes payable (attach schedule)			
65	Other liabilities ▶ _____			
66	Total liabilities (add lines 60 through 65)			
Fund Balances or Net Worth				
Organizations that use fund accounting, check here <input type="checkbox"/> and complete lines 67 through 70 and lines 74 and 75.				
67a	Current unrestricted fund			
b	Current restricted fund			
68	Land, buildings and equipment fund			
69	Endowment fund			
70	Other funds (Describe ▶ _____)			
Organizations that do not use fund accounting, check here <input type="checkbox"/> and complete lines 71 through 75.				
71	Capital stock or trust principal			
72	Paid-in or capital surplus			
73	Retained earnings or accumulated income			
74	Total fund balances or net worth (see instructions)			
75	Total liabilities and fund balances/net worth (see instructions)			

Part VI List of Officers, Directors, and Trustees (List each officer, director, and trustee whether compensated or not.) (See instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if any)	(D) Contributions to employee benefit plans	(E) Expense account and other allowances
.....				
.....				
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.....				
.....				

Part VII Other information

	Yes	No
76 Has the organization engaged in any activities not previously reported to the Internal Revenue Service? If "Yes," attach a detailed description of the activities.		
77 Have any changes been made in the organizing or governing documents, but not reported to IRS? If "Yes," attach a conformed copy of the changes.		
78 a Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return? b If "Yes," have you filed a tax return on Form 990-T, Exempt Organization Business Income Tax Return, for this year? c If the organization has gross sales or receipts from business activities not reported on Form 990-T, attach a statement explaining your reason for not reporting them on Form 990-T.		
79 Was there a liquidation, dissolution, termination, or substantial contraction during the year? (See instructions.) If "Yes," attach a statement as described in the instructions.		
80 Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization? (See instructions.) If "Yes," enter the name of the organization ▶ and check whether it is <input type="checkbox"/> exempt OR <input type="checkbox"/> nonexempt.		
81 a Enter amount of political expenditures, direct or indirect, as described in the instructions b Did you file Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations, for this year?		
82 Did your organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If "Yes," you may indicate the value of these items here. Do not include this amount as support in Part I or as an expense in Part II. See instructions for reporting in Part III. ▶		
83 Section 501(c)(5) or (6) organizations.—Did the organization spend any amounts in attempts to influence public opinion about legislative matters or referendums? (See instructions and Regulations section 1.162-20(c).) If "Yes," enter the total amount spent for this purpose		
84 Section 501(c)(7) organizations.—Enter amount of: a Initiation fees and capital contributions included on line 12 b Gross receipts, included in line 12, for public use of club facilities (see instructions) c Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion? (See instructions.)		
85 Section 501(c)(12) organizations.—Enter amount of: a Gross income received from members or shareholders b Gross income received from other sources (do not net amounts due or paid to other sources against amounts due or received from them)		
86 Public interest law firms.—Attach information described in the instructions.		
87 List the states with which a copy of this return is filed ▶		
88 During this tax year did you maintain any part of your accounting/tax records on a computerized system?		
89 The books are in care of ▶ Telephone no. ▶ Located at ▶		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Please Sign Here

Signature of officer _____ Date _____ Title _____

Paid Preparer's Use Only

Preparer's signature ▶ _____ Date _____ Check if self-employed

Firm's name (or yours, if self-employed) and address ▶ _____ ZIP code _____

Form **990-T**
Department of the Treasury
Internal Revenue Service

Exempt Organization Business Income Tax Return

OMB No 1545-0687

(Under Section 511 of the Internal Revenue Code) For calendar year 1986 or other tax year
beginning 1986, and ending 19

1986

Name of organization _____

Address (number and street) _____

City or town, state, and ZIP code _____

A Employer identification number (employees trust see instruction for Block A) _____

B Enter unrelated business activity codes from page 12 of instructions _____

C Check box if address changed. **D** Exempt under section 501 () () _____

E Check type of organization Corporation Trust Section 401(a) trust _____

F Group exemption number (see instructions for Block F) _____

If the unrelated trade or business gross income is \$10,000 or less, complete only page 1 and Part III on page 2, and sign the return. Complete all applicable parts of the form (except lines 1 through 4) if unrelated trade or business gross income is over \$10,000.

Taxable Income	1	Unrelated trade or business gross income (state sources _____)	1
	2	Deductions (including net operating loss) (complete Parts I and II instead of lines 1, 2, 3, and 4 if you have gross income over \$10,000)	2
	3	Unrelated business taxable income before specific deduction (subtract line 2 from line 1)	3
	4	Specific deduction (see instructions)	4
	5	Unrelated business taxable income (subtract line 4 from line 3 or enter amount from line 33, page 2. If line 4 is greater than line 3, enter the lesser of zero or line 3.)	5
Tax Computation	Organizations Taxable as Corporations (See Instructions for Tax Computation)		
	6a	Check if you are a member of a controlled group (see sections 1561 and 1563) <input type="checkbox"/>	
	b	If checked, see instructions and enter your share of the \$25,000 in each taxable income bracket: (i) \$ _____ (ii) \$ _____ (iii) \$ _____ (iv) \$ _____	
	c	If checked and your tax year includes July 1, 1987, enter share of tax bracket amounts: (i) \$ _____ (ii) \$ _____	
	7	Income tax on amount on line 5, above. Check here <input type="checkbox"/> if alternative tax is used	7
	Trusts Taxable at Trust Rates (See Instructions for Tax Computation)		
	8	Enter the tax from the tax rate schedule in the instructions on the amount on line 5	8
Total Income Tax	9a	Foreign tax credit (corporations attach Form 1118, trusts attach Form 1116)	9a
	b	Other credits (see instructions)	9b
	c	General business credit.—Check if from _____ Form 3800 _____ Form 3468 _____ Form 6478 _____ Form 6765 _____ Form 8586	9c
	10	Total (add lines 9a through 9c)	10
	11	Subtract line 10 from line 7 or line 8	11
	12	Tax from recomputing prior year investment credit (attach Form 4255)	12
	13	Minimum tax on tax preference items (Corporations only—see instructions)	13
	14	Alternative minimum tax (Trusts only—see instructions)	14
	15	Total tax (add lines 11 through 14)	15
	16	Credits and payments:	
	a	Tax deposited with Form 7004 or Form 2758	16a
	b	Foreign organizations—Tax paid or withheld at the source (see instructions)	16b
c	Credit from regulated investment companies (attach Form 2439)	16c	
d	Credit for Federal tax on gasoline and special fuels (attach Form 4136)	16d	
e	Other credits and payments (see instructions)	16e	
17	Total credits and payments (add lines 16a through 16e)	17	
18	TAX DUE (subtract line 17 from line 15) See instructions for depositary method of payment	18	
19	OVERPAYMENT (subtract line 15 from line 17)	19	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge

Signature of officer _____ Date _____ Title _____

Preparer's signature _____ Date _____ Check if self-employed Preparer's social security no. _____

Paid Preparer's Use Only

Firm's name (or yours, if self-employed) and address _____ E.I. No. _____ ZIP code _____

Form 990-T (1986)

Part I Unrelated Trade or Business Income

Table with 13 rows for Part I. Columns include description, balance indicator, and line number (1c-13). Rows include Gross receipts or sales, Cost of goods sold, Capital gain net income, etc.

Part II Deductions Not Taken Elsewhere

(Except for contributions, deductions must be directly connected with the unrelated business income.)

Table with 19 rows for Part II. Columns include description, line number (14-33), and some sub-columns (21, 22a, 22b). Rows include Compensation of officers, Salaries and wages, Repairs, etc.

SCHEDULE A—COST OF GOODS SOLD AND/OR OPERATIONS

(See Instructions for Part I, line 2)

Table for Schedule A with 7 rows. Columns include description and line number (1-7). Rows include Method of inventory valuation, Inventory at beginning of year, Purchases, etc.

Part III Statements Regarding Certain Activities and Other Information

Table with 2 rows for Part III. Columns include question, Yes/No, and response area. Questions are about foreign financial accounts and foreign trusts.

The books are in care of

Telephone number

Form 990 and 990-T Returns Filed in 1984, 1985, and 1986

<u>Calendar (filing) year</u>	<u>Number of Forms 990 filed</u>	<u>Number of Forms 990-T filed^a</u>
1984	300,250	21,119
1985	345,473	23,433
1986	345,141	27,379

Source: IRS Exempt Organization/Business Master File

^aIncludes Forms 990-T filed by section 401(a) pension trusts.

Examination of 990-T Tax Returns by 501(c)
Categories in Fiscal Years 1985 and 1986

<u>Category and description^a</u>	<u>Number of 990-T</u> <u>returns examined in:</u>	
	<u>FY 1985</u>	<u>FY 1986</u>
501(c)(2) Title-holding corporations organized to hold title to property of an exempt organization, collect the income, and deliver the net proceeds to the exempt organization.	30	49
501(c)(3) Entities organized and operated exclusively for religious and charitable, scientific, testing for public safety, literacy, or educational purposes; or for the prevention of cruelty to children or animals, or to foster amateur sports.	601	687
501(c)(4) Civic leagues or organizations operated exclusively for the promotion of social welfare or local associations of employees (earnings devoted to charitable, educational, or recreational purposes).	194	257
501(c)(5) Labor, agricultural, and horticultural organizations organized to provide education and instruction on improving working conditions and products.	169	174

<u>Category and description</u>	<u>Number of 990-T returns examined for</u>	
	<u>FY 1985</u>	<u>FY 1986</u>
501(c)(6) Business leagues, chambers of commerce, real estate boards, and professional football leagues organized to improve business conditions.	499	616
501(c)(7) Clubs organized for pleasure and recreational purposes.	954	1,101
501(c)(8) Fraternal beneficiary societies and associations organized to provide for the payment of life, sickness, accident, or other benefits to members and operated under a framework of self-governing branches chartered by a parent organization.	187	217
501(c)(9) through (c)(23)	<u>151</u>	<u>223</u>
Total 990-T returns examined	<u>2,785</u>	<u>3,324</u>

Source: Internal Revenue Code and IRS Exempt Organization Automated Information Management System tables.

^aAccording to IRS, 501(c)(1) organizations are not subject to UBIT and do not file Forms 990-T.

Unrelated Business Activities and Associated IRS Codes

AGRICULTURE, FORESTRY, AND FISHING	
Case	
0400	Agricultural production
0800	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping
MINING	
Metal mining:	
1010	Iron ores
1070	Copper, lead and zinc, gold and silver ores
1098	Other metal mining
1150	Coal mining
Oil and gas extraction:	
1330	Crude petroleum, natural gas, and natural gas liquids
1380	Oil and gas field services
Nonmetallic minerals (except fuels) mining:	
1430	Dimensional crushed and broken stone, sand and gravel
1498	Other nonmetallic minerals, except fuels
CONSTRUCTION	
General building contractors and operative builders:	
1510	General building contractors
1531	Operative builders
1600	Heavy construction contractors
Special trade contractors:	
1711	Plumbing, heating, and air conditioning
1731	Electrical work
1798	Other special trade contractors
MANUFACTURING	
Food and kindred products:	
2010	Meat products
2020	Dairy products
2030	Preserved fruits and vegetables
2040	Grain mill products
2050	Bakery products
2080	Sugar and confectionery products
2081	Malt, liquors and malt
2088	Alcoholic beverages, except malt liquors and malt
2089	Bottled soft drinks and flavorings
2098	Other food and kindred products
2100	Tobacco manufacturers
Textile mill products:	
2228	Weaving mills and textile finishing
2250	Knitting mills
2298	Other textile mill products
Apparel and other textile products:	
2315	Men's and boys' clothing
2345	Women's and children's clothing
2388	Hats, caps, millinery, fur goods, and other apparel and accessories
2390	Miscellaneous fabricated textile products
Lumber and wood products, except furniture:	
2415	Logging camps and logging contractors, sawmills, and planing mills
2430	Mitwork, plywood, and related products
2498	Other wood products including wood buildings and mobile homes
2500	Furniture and fixtures
Paper and allied products:	
2625	Pulp, paper and board mills
2699	Other paper products
Printing, publishing, and allied industries:	
2710	Newspapers
2720	Periodicals
2735	Books, greeting cards, and misc. publishing
2799	Commercial and other printing, and printing trade services
Chemicals and allied products:	
2815	Industrial chemicals, plastics materials and synthetics
2830	Drugs
2840	Soaps, cleaners, and toilet goods
2890	Paints and allied products
2898	Agricultural and other chemical products
Petroleum refining and related industries (including those integrated with extraction):	
2910	Petroleum refining (including those integrated with extraction)
2998	Other petroleum and coal products
Rubber and misc. plastics products:	
3050	Rubber products, plastics footwear, hose and belting
3070	Misc. plastics products
Leather and leather products:	
3140	Footwear except rubber
3198	Other leather and leather products
Stone, clay, glass, and concrete products:	
3225	Glass products
3240	Cement hydraulic
3270	Concrete, gypsum and plaster products
3298	Other nonmetallic mineral products
Primary metal industries:	
3370	Ferrous metal industries, misc. primary metal products
3380	Nonferrous metal industries

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES	
Code	
Fabricated metal products, except machinery and transportation equipment:	
3410	Metal cans and shipping containers
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
3430	Plumbing and heating, except electric and warm air
3440	Fabricated structural metal products
3450	Metal forgings and stampings
3470	Coating, engraving, and allied services
3480	Ordinances and accessories, except vehicles and guided missiles
3490	Miscellaneous fabricated metal products
Machinery, except electrical:	
3520	Farm machinery
3530	Construction, mining and materials handling machinery and equipment
3540	Metalworking machinery
3550	Social industry machinery, except metalworking machinery
3560	General industrial machinery
3570	Office, computing, and accounting machines
3598	Engines and turbines, service industry machinery, and other machinery, except electrical
Electrical and electronic machinery, equipment, and supplies:	
3630	Household appliances
3665	Radio, television, and communication equipment
3670	Electronic components and accessories
3698	Other electric equipment
Transportation equipment:	
3710	Motor vehicles and equipment
3725	Aircraft, guided missiles and parts
3730	Ship and boat building and repairing
3798	Other transportation equipment
Measuring and controlling instruments, photographic and medical goods, watches and clocks:	
3815	Scientific instruments and measuring devices, watches and clocks
3845	Optical, medical, and ophthalmic goods
3880	Photographic equipment and supplies
3998	Other manufacturing products
TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES	
Code	
Transportation:	
4000	Railroad transportation
4100	Local and interurban passenger transit
4200	Trucking and warehousing
4400	Water transportation
4500	Transportation by air
4600	Pipelines, except natural gas
4700	Other transportation services
Communication:	
4825	Telephone, telegraph, and other communication services
4830	Radio and television broadcasting
Electric, gas, and sanitary services:	
4910	Electric services
4920	Gas production and distribution
4930	Communication utility services
4990	Water supply and other sanitary services
WHOLESALE TRADE	
Durable goods:	
5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment
5020	Furniture and home furnishings
5030	Fur and construction materials
5040	Sporting, recreational, photographic, hobby goods, toys, and supplies
5050	Metals and minerals, except petroleum and scrap
5080	Electrical goods
5070	Hardware, plumbing and heating equipment
5080	Machinery, equipment, and supplies
5098	Other durable goods
Nondurable goods:	
5110	Paper and paper products
5125	Drugs, drug preparations, and druggists' sundries
5130	Apparel, sheet goods, and notions
5140	Grain and related products
5147	Meats and meat products
5150	Farm-product raw materials
5180	Chemicals and allied products
5170	Petroleum and petroleum products
5180	Alcoholic beverages
5190	Miscellaneous nondurable goods
RETAIL TRADE	
Building materials, hardware, garden supply, and mobile home dealers:	
5220	Building materials dealers
5251	Hardware stores
5265	Garden supplies and mobile home dealers
5300	General merchandise stores
5410	Grocery stores
5490	Other food stores

FINANCE, INSURANCE, AND REAL ESTATE	
Code	
Automotive dealers and service stations:	
5515	Motor vehicle dealers
5541	Gasoline service stations
5598	Other automotive dealers
5600	Apparel and accessory stores
5700	Furniture and home furnishing stores
5800	Eating and drinking places
Misc. retail stores:	
5912	Drug stores and proprietary stores
5921	Liquor stores
5999	Other misc. retail stores
FINANCE, INSURANCE, AND REAL ESTATE	
Code	
Banking:	
6030	Mutual savings banks
6080	Bank holding companies
6090	Banks, except mutual savings banks and bank holding companies
Credit agencies other than banks:	
6120	Savings and loan associations
6140	Personal credit institutions
6150	Business credit institutions
6199	Other credit agencies
Security, commodity brokers, dealers, exchanges, and services:	
6210	Security brokers, dealers, and flotation companies
6299	Commodity contracts brokers and dealers, security and commodity exchanges, and allied services
Insurance:	
6385	Life insurance
6398	Mutual insurance except life or marine and certain fire or flood insurance companies
6399	Other insurance companies
6411	Insurance agents, brokers, and services
Real estate:	
6511	Real estate operators (except developers) and lessors of buildings
6616	Lessors of mining, oil and similar property
6618	Lessors of railroad property and other real property
6630	Condominium management and cooperative housing associations
6650	Subdividers and developers
6699	Other real estate
Holding and other investment companies:	
6742	Regulated investment companies
6743	Real estate investment trusts
6744	Small business investment companies
6749	Holding and other investment companies except bank holding companies
SERVICES	
Code	
Hotels and other lodging places:	
7088	Hotels and other lodging places
7200	Personal services
Business services:	
7310	Advertising
7389	Business services except advertising
Auto repair and services, misc. repair services:	
7500	Auto repair and services
7600	Misc. repair services
Amusement and recreational services:	
7812	Motion picture production, distribution, and services
7830	Motion picture theaters
7900	Amusement and recreation services except motion pictures
Other services:	
8015	Offices of physicians, including osteopathic physicians
8021	Offices of dentists
8040	Offices of other health practitioners
8050	Nursing and personal care facilities
8080	Hospitals
8071	Medical laboratories
8099	Other medical services
8111	Legal services
8200	Educational services
8300	Social services
8600	Memorabilia organizations
8911	Architectural and engineering services
8930	Accounting, auditing and bookkeeping
8980	Miscellaneous services (including veterinarians)
OTHER	
Code	
Unrelated debt-financed activities other than rental of real estate:	
9100	Investment activities by section 501(c)(7) (9) or (20) organizations
9200	Rental of personal property
9300	Passive income activities with controlled organizations
9400	Expatriated exempt activities