



Instructions for Form 990-T

Exempt Organization Business Income Tax Return

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

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A Change To Note

If an exempt organization, which is required to file Form 990-T, wants to allow the IRS to discuss its 2001 Form 990-T with the paid preparer who signed it, check the "Yes" box in the area where the officer of the organization signed the return. See page 15.

Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Unresolved Tax Issues

If the organization has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the organization's interest and concerns within the IRS by protecting the rights and resolving problems that have not been fixed through normal channels.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that the organization's case is given a complete and impartial review.

The organization's assigned personal advocate will listen to its point of view and will work with the organization to address its concerns. The organization can expect the advocate to provide:

- A "fresh look" at a new or on-going problem.
- Timely acknowledgement.
- The name and telephone number of the individual assigned to its case.
- Updates on progress.
- Timeframes for action.
- Speedy resolution.
- Courteous service.

When contacting the Taxpayer Advocate, the organization should provide the following information:

- The organization's name, address, and employer identification number (EIN).
- The name and telephone number of an authorized contact person and the hours he or she can be reached.
- The type of tax return and years involved.
- A detailed description of the problem.
- Previous attempts to solve the problem and the office that had been contacted.
- A description of the hardship the organization is facing (if applicable).

The organization may contact a Taxpayer Advocate by calling a toll-free number, 1-877-777-4778. Persons who have access to TTY/TTD equipment may call 1-800-829-4059 and ask for Taxpayer Advocate assistance. If the organization prefers, it may call, write, or fax to the Taxpayer Advocate office in its area. See **Pub. 1546**, The Taxpayer Advocate Service of the IRS, for a list of addresses and fax numbers.

Phone Help

If you have questions and/or need help completing this form, please call **1-877-829-5500**. This toll-free telephone service is available Monday through Friday from 8:00 a.m. to 9:30 p.m. Eastern time.

How To Get Forms and Publications

Personal Computer

You can access the IRS Web Site 24 hours a day, 7 days a week at **www.irs.gov** to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.

You can also reach us using file transfer protocol at **ftp.irs.gov**.

CD-ROM

Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.

- Frequently requested forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM on the Internet at www.irs.gov/cdorders from the National Technical Information Service (NTIS) for \$21 (no handling fee), or call **1-877-CDFORMS** (1-877-233-6767) toll-free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

By Phone and In Person

You can order forms and publications 24 hours a day, 7 days a week, by calling **1-800-TAX-FORM** (1-800-829-3676). You can also get most forms and publications at your local IRS office.

General Instructions

Purpose of Form

Use **Form 990-T**, Exempt Organization Business Income Tax Return, to:

- Report unrelated business income;
- Figure and report unrelated business income tax liability;
- Report proxy tax liability;
- Claim a refund of income tax paid by a regulated investment company (RIC) or a real estate investment trust (REIT) on undistributed long-term capital gain.

Who Must File

- Any domestic or foreign organization exempt under section 501(a) or section 529(a) must file Form 990-T if it has gross income from an unrelated trade or business of \$1,000 or more. See Regulations section 1.6012-2(e). Gross income is gross receipts minus the cost of goods sold. (See Regulations section 1.61-3.)

Note — Disregarded entity. A *disregarded entity*, as described in Regulations sections 301.7701-1 through 301.7701-3, is treated as a branch or division of its parent organization for Federal tax purposes. Therefore, financial information applicable to a disregarded entity must be reported as the parent organization's financial information.

- Organizations liable for the proxy tax on lobbying and political expenditures must file Form 990-T. See the line 37 instructions on page 13 for a discussion of the proxy tax. If your organization is only required to file Form 990-T because of the proxy tax, see **Proxy Tax Only** under **Which Parts To Complete**, on page 4.

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

- Organizations that are liable for other taxes (such as the section 1291 tax (line 35c or 36 of Form 990-T) or recapture taxes (line 42 of Form 990-T)) must file Form 990-T. See pages 13 and 14 of the instructions for a discussion of these items. If your organization is only required to file Form 990-T because of these taxes, see **Other Taxes** under **Which Parts To Complete**, on page 4.

- Fiduciaries for the following trusts that have \$1,000 or more of unrelated trade or business gross income must file Form 990-T:

1. Individual Retirement Accounts (IRAs) described under section 408(a),
2. Simplified Employee Pensions (SEPs) described under section 408(k),
3. Simple Retirement Accounts (SIMPLE) described under section 408(p),
4. Roth IRAs described under section 408A(b),
5. Coverdell education savings accounts (ESAs) described under section 530(b), and
6. Archer Medical Savings Accounts (Archer MSAs) described under section 220(d).

TIP *IRAs and other tax-exempt shareholders in a RIC or REIT filing Form 990-T only to obtain a refund of income tax paid on undistributed long-term capital gains should complete Form 990-T as explained in IRAs and other tax exempt shareholders in a RIC or REIT under Which Parts To Complete, on page 4.*

Definitions

Unrelated trade or business income.

Unrelated trade or business income is the gross income derived from any *trade or business* (defined on page 3) that is regularly carried on, and *not substantially related to* (defined on page 3), the organization's exempt purpose or function (aside from the organization's need for income or funds or the use it makes of the profits).

Generally, for section 501(c)(7), (9), or (17) organizations, unrelated trade or business income is derived from nonmembers with certain modifications (see section 512(a)(3)(A)).

For a section 511(a)(2)(B) state college or university, unrelated trade or business income is derived from activities not substantially related to exercising or performing any purpose or function described in section 501(c)(3).

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

1. In which substantially all the work is performed for the organization without compensation; or
2. That is carried on by a section 501(c)(3) or 511(a)(2)(B) organization mainly for the convenience of its

members, students, patients, officers, or employees; or

3. That sells items of work-related equipment and clothes, and items normally sold through vending machines, food dispensing facilities or by snack bars, by a local association of employees described in section 501(c)(4), organized before May 27, 1969, if the sales are for the convenience of its members at their usual place of employment; or

4. That sells merchandise substantially all of which was received by the organization as gifts or contributions; or

5. That consists of qualified public entertainment activities regularly carried on by a section 501(c)(3), (4), or (5) organization as one of its substantial exempt purposes (see section 513(d)(2) for the meaning of qualified public entertainment activities); or

6. That consists of qualified convention or trade show activities regularly conducted by a section 501(c)(3), (4), (5), or (6) organization as one of its substantial exempt purposes (see section 513(d)(3) for the meaning of qualified convention and trade show activities); or

7. That furnishes one or more services described in section 501(e)(1)(A) by a hospital to one or more hospitals subject to conditions in section 513(e); or

8. That consists of qualified pole rentals (as defined in section 501(c)(12)(D)), by a mutual or cooperative telephone or electric company; or

9. That includes activities relating to the distribution of low-cost articles, each costing \$7.60 or less by an organization described in section 501 and contributions to which are deductible under section 170(c)(2) or (3) if the distribution is incidental to the solicitation of charitable contributions; or

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

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

a. Wagers are placed, winners determined, and prizes distributed in the presence of all persons wagering in that game, and

b. The game does not compete with bingo games conducted by for-profit businesses in the same jurisdiction, and

c. The game does not violate state or local law; or

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

13. That consists of soliciting and receiving qualified sponsorship payments that are solicited or received after December 31, 1997. Generally, qualified sponsorship payment means any payment to a tax-exempt organization by a person engaged in a trade or business in which there is no arrangement or expectation of any substantial return benefit by that person—other than the use or acknowledgment of that person's name, logo, or product lines in connection with the activities of the tax-exempt organization. See section 513(i) for more information.

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

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

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

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

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

When To File

An employees' trust defined in section 401(a), an IRA (including SEPs and SIMPLEs), a Roth IRA, a Coverdell ESA, and an Archer MSA must file Form 990-T

by the **15th day of the 4th month** after the end of the tax year. All other organizations, must file Form 990-T by the **15th day of the 5th month** after the end of the tax year. If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. If the return is filed late, see the discussion of **Interest and Penalties** on page 4.

Extension. Corporations may request an automatic 6-month extension of time to file Form 990-T by using **Form 8868**, Application for Extension of Time To File an Exempt Organization Return.

Trusts may request an automatic 3-month extension of time to file by using Form 8868. Also, if more than the initial automatic 3 months is needed, trusts may request on a second Form 8868 that an additional, but not automatic, 3 months may be granted by the IRS.

Amended return. To correct errors or change a previously filed return, write "Amended Return" at the top of the return. Also, include a statement that indicates the line number(s) on the original return that was changed and give the reason for each change. Generally, the amended return must be filed within 3 years after the date the original return was due or 3 years after the date the organization filed it, whichever is later.

Where To File

To file Form 990-T, mail or deliver it to:
Internal Revenue Service Center
Ogden, UT 84201-0027

Private delivery services (PDSs). In addition to the United States mail, exempt organizations can use certain PDSs designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated PDSs was published by the IRS in October 2001. This list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
- DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2 Day.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Estimated Taxes

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

Taxable Income for Tax-Exempt Organizations, to figure their estimated tax liability. **Do not** include the proxy tax when computing your estimated tax liability for 2002.

To figure estimated tax, trusts and corporations must take the alternative minimum tax (if applicable) into account. See Form 990-W for more information.

Depository Method of Tax Payment

The organization must pay the tax due in full by the due date of the return without extensions. Some organizations (described below) are required to electronically deposit all depository taxes, including their unrelated business income tax payments.

Electronic Deposit Requirement

The organization must make electronic deposits of **all** depository tax (such as employment tax, excise tax, unrelated business income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2002 if:

- The total deposits in 2000 were more than \$200,000 or
- The organization was required to use EFTPS in 2001.

If an organization is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If an organization is not required to use EFTPS, it may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400. To enroll online, visit **www.irs.gov**.

Depositing on time. For EFTPS deposits to be made timely, the organization must initiate the transaction at least 1 business day before the date the deposit is due.

Deposits With Form 8109

If the organization does not use EFTPS, deposit unrelated business income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. If you do not have a preprinted Form 8109, you may use Form 8109-B to make deposits. You can get this form only by calling 1-800-829-1040. Be sure to have your EIN ready when you call.

Do not send deposits directly to an IRS office; otherwise, the organization may have to pay a penalty. Mail or deliver the completed Form 8109 with the payment to an authorized depository, i.e., a commercial bank or other financial institution authorized to accept Federal tax deposits.

Make checks or money orders payable to the depository. To help ensure proper crediting, write the organization's EIN, the tax period to which the deposit applies, and "Form 990-T" on the check or money order. Be sure to darken the "990-T" box on the coupon. Records of these deposits will be sent to the IRS.

If the organization prefers, it may mail the coupon and payment to: Financial Agent, Federal Tax Deposit Processing, P.O. Box 970030, St. Louis, MO 63197. Make the check or money order payable to "Financial Agent."

For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub. 583**, Starting a Business and Keeping Records.



If the organization owes tax when it files Form 990-T, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to an authorized depository, or use the EFTPS, if applicable.

Interest and Penalties

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

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

Penalty for late filing of return. An organization that fails to file its return when due (including extensions of time for filing) is subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or \$100. The penalty will not be imposed if the organization can show that the failure to file on time was due to reasonable cause. Organizations that file late must attach a statement explaining the reasonable cause.

Penalty for late payment of tax. The penalty for late payment of taxes is usually $\frac{1}{2}$ of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the unpaid tax. The penalty will not be imposed if the organization can show that the failure to pay on time was due to reasonable cause.

Estimated tax penalty. An organization that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, an organization is subject to this penalty if its tax liability is \$500 or more and it did not make estimated tax payments of at least the smaller of its tax liability for 2001, or 100%

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

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

- The annualized income or adjusted seasonal installment method is used.
- The organization is a "large organization" computing its first required installment based on the prior year's tax.

If you attach Form 2220, be sure to check the box on line 46, page 2, Form 990-T, and enter the amount of any penalty on this line.

Trust fund recovery penalty. This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not paid to the United States Treasury. These taxes are generally reported on Forms 720, 941, 943, or 945. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been **responsible** for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the instructions for Form 720, **Pub. 15 (Circular E)**, Employer's Tax Guide, or **Pub. 51 (Circular A)**, Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

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

Which Parts To Complete



*If you are filing Form 990-T only because of the proxy tax, other taxes, or only to claim a refund, go directly to **Proxy Tax Only**, **Other Taxes**, or **Claim for Refund** (see below).*

Is Gross Income More Than \$10,000?

If the amount on line 13, column (A), Part I, is more than \$10,000, complete all lines and schedules that apply.

Is Gross Income \$10,000 or Less?

If Part I, line 13, column (A) is \$10,000 or less, then complete:

- The heading (the area above Part I).
- Part I, column (A) lines 1-13.
- Part I, line 13, for columns (B) and (C).
- Part II, lines 29-34.
- Parts III-V.
- Signature area.

Filers with \$10,000 or less on line 13, column (A) **do not** have to complete Schedules A through K (however, refer to applicable schedules when completing column (A) and in determining the deductible expenses to include on line 13 of column (B)).

Proxy Tax Only

Organizations that are required to file Form 990-T only because they are liable for the proxy tax on lobbying and political expenditures must:

- Fill-in the heading (the area above Part I) except items E, H, and I.
- Enter the proxy tax on lines 37 and 39.
- Complete Part IV and the Signature area.
- Attach a schedule showing the proxy tax computation.

Other Taxes

Organizations that are required to file Form 990-T only because they are liable for recapture taxes, the section 1291 tax, or other items listed in the instructions for line 42 must:

- Fill-in the heading (the area above Part I) except items E, H, and I.
- Complete the appropriate lines of Parts III and IV.
- Complete the Signature area.
- Attach all appropriate forms and or schedules showing the computation of the applicable tax or taxes.

Claim For Refund

If your only reason for filing a Form 990-T is to claim a refund, complete the following steps:

1. Fill-in the heading (the area above Part I) except items E, H, and I.
2. Enter -0- on line 13, column (A), line 34, and line 43.
3. Enter the credit or payment on the appropriate line (44a-44f).
4. Complete lines 45, 48, and 49 and the Signature area.
5. For claims described below, follow the additional instructions for that claim.

IRAs and other tax-exempt shareholders in a RIC or REIT. If you are an IRA or other tax-exempt shareholder that is invested in a RIC or a REIT and file Form 990-T only to obtain a refund of income tax paid on undistributed long-term capital gains, follow steps 1-4 above; write "Claim for Refund Shown on Form 2439" at the top of the Form 990-T; and attach to the return **Copy B of Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Composite Form 990-T. If you are a trustee of more than one IRA invested in a RIC, you may be able to file a composite Form 990-T to claim a refund of tax under section 852(b) instead of filing a separate Form 990-T for each IRA. See Notice 90-18, 1990-1 C.B. 327, for information on who can file a composite return. Complete steps 1-4

above and follow the additional requirements of the notice.

Backup withholding. If your only reason for filing Form 990-T is to claim a refund for backup withholding, complete the parts discussed on page 4 in steps 1-4 and attach a copy of the Form 1099 showing the withholding.

Consolidated Returns

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

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

Disclosure Statement for Corporate Tax Shelters

An organization is required to disclose its participation in **certain** tax shelters:

- By attaching a disclosure statement to its income tax return for a reportable transaction for each tax year its income tax liability is affected by its participation in the transaction and
- For the first tax year a disclosure statement is attached to its tax return by sending a copy of the disclosure statement to the;

Internal Revenue Service
LM:PFTG:OTSA
Large & Mid-Size Business Division
1111 Constitution Ave., NW
Washington, DC 20224.

Disclosure is required for reportable transactions that are: (a) listed transactions that the IRS has identified as a tax avoidance transaction and (b) other reportable transactions that have tax

shelter characteristics. A listed transaction must be reported if it is expected to reduce the taxpayer's income tax liability by more than \$1 million in a single tax year or by a total of more than \$2 million for any combination of years. For other reportable transactions, the threshold, increases to \$5 million for a single tax year or to \$10 million for any combination of years. Generally, reporting is not required for customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge.

See Temporary Regulations section 1.6011-4T for details, including:

- The definition of a reportable transaction and a listed transaction,
- The relevant tax shelter characteristics for other reportable transactions,
- The form and contents of the disclosure statement, and
- The filing requirements of the disclosure statement.

Also, see Notice 2001-51, 2001-34 I.R.B. 190, for certain listed transactions determined to have a tax avoidance purpose and the intended tax benefits that are subject to disallowance. The listed transactions in this notice may be updated from time to time when other tax avoidance transactions are identified.

Other Forms You May Need To File

Form W-2, Wage and Tax Statement, and **Form W-3**, Transmittal of Wage and Tax Statements. Use these forms to report wages, tips, other compensation, withheld income taxes, and withheld social security/Medicare taxes for employees.

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

 See **Trust fund recovery penalty** on page 4.

Form 926. File Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, if the organization is required to report certain transfers to foreign corporations under section 6038B.

Form 940 or **Form 940-EZ**. The organization must file Form 940 or Form 940-EZ, Employers' Annual Federal Unemployment (FUTA) Tax Return, if it is liable for FUTA tax.

Form 941 or **Form 943**. The organization must file Form 941, Employer's Quarterly Federal Tax Return, or Form 943, Employer's Annual Tax Return for Agricultural Employees, to report income tax withheld, and employer and employee social security and Medicare taxes. Also,

see **Trust fund recovery penalty** on page 4.

Form 945. Use Form 945, Annual Return of Withheld Federal Income Tax, to report income tax withheld from nonpayroll distributions or payments, including pensions, annuities, IRAs, gambling winnings, and backup withholding.

Form 1098. Use Form 1098, Mortgage Interest Statement, to report the receipt from any individual of \$600 or more of mortgage interest (including points) in the course of the organization's trade or business and reimbursements of overpaid interest.

Information returns. Organizations engaged in an unrelated trade or business may be required to file an information return on **Forms 1099-A, B, DIV, INT, LTC, MISC, MSA, OID, R, and S**, to report acquisitions or abandonments of secured property through foreclosure; proceeds from broker and barter exchange transactions; certain dividends and distributions; interest income; certain payments made on a per diem basis under a long-term care insurance contract, and certain accelerated death benefits; miscellaneous income (e.g., payments to providers of health and medical services, miscellaneous income payments, and nonemployee compensation); distributions from an Archer MSA; original issue discount; distributions from retirement or profit-sharing plans, IRAs, SEPs, or SIMPLEs, and insurance contracts; and proceeds from real estate transactions.

 When filing the above noted information returns the organization must also file **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.

Form 4466. Use Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, to apply for a quick refund, if the organization overpaid its estimated tax for the year by at least 10% of its expected income tax liability and at least \$500.

Form 5498. Use Form 5498, IRA and Coverdell ESA Contribution Information, to report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, Roth IRA, Coverdell ESA, Roth conversions, IRA recharacterization, and the fair market value of the account.

Form 5498-MSA. Use Form 5498-MSA, Archer MSA or Medicare+Choice MSA Information, to report contributions to an Archer MSA and the fair market value of an Archer MSA or Medicare+Choice MSA. For more information see the general and specific Instructions for Forms 1099, 1098, 5498, and W-2G.

Form 5713. File Form 5713, International Boycott Report, if the organization had operations in, or related to, certain "boycotting" countries.

Form 6198. File Form 6198, At-Risk Limitations, if the organization has a loss

from an at-risk activity carried on as a trade or business or for the production of income.

Form 8275 and 8275-R. Taxpayers and income tax return preparers use Form 8275, Disclosure Statement, and Form 8275-R, Regulation Disclosure Statement, to disclose items or positions taken on a tax return or that are contrary to Treasury regulations (to avoid parts of the accuracy-related penalty or certain preparer penalties).

Form 8300. File Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, if the organization received more than \$10,000 in cash or foreign currency in one transaction or in a series of related transactions. For more information, see Form 8300 and Regulations section 1.60501-1(c).

Form 8697. Use Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded under the look-back method of section 460(b)(2). The look-back method applies to certain long-term contracts that are accounted for under either the percentage method or the completion-capitalized cost method.

Form 8865, Return of U.S. Person With Respect To Certain Foreign Partnerships. An organization may have to file Form 8865 if it:

1. Controlled a foreign partnership (i.e., owned more than a 50% direct or indirect interest in the partnership).
2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.
3. Had an acquisition, disposition, or change in proportional interest in a foreign partnership that:
 - a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.
 - b. Changed its direct interest by at least a 10% interest.
4. Contributed property to a foreign partnership in exchange for a partnership interest if:
 - a. Immediately after the contribution, the corporation owned, directly or indirectly, at least a 10% interest in the foreign partnership; or
 - b. The FMV of the property the corporation contributed to the foreign partnership in exchange for a partnership interest, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds \$100,000.

Also, the organization may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that foreign partnership if it was a partner at the time

of the disposition. For more details, including penalties that may apply, see Form 8865 and its separate instructions.

Form 8873, Extraterritorial Income Exclusion. Use this form to report the amount of extraterritorial income that is excluded from the organization's gross income for the tax year.

Accounting Methods

Figure the taxable income using the method of accounting regularly used in keeping the organization's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446. Permissible methods include the cash, accrual, or any other method authorized by the Internal Revenue Code. However, organizations with average annual gross receipts of more than \$5 million must generally use the accrual method of accounting for their unrelated trade or business activities. See section 448(c).

In all cases the method used must clearly show taxable income. If inventories are required, the accrual method must be used for sales and purchases of merchandise. However, if the organization is a qualifying taxpayer under Rev. Proc. 2001-10, 2001-2 I.R.B. 272 (i.e., has average gross receipts of \$1 million or less and is not a tax shelter), the organization is excepted from the requirements to use an accrual method and may account for inventory items as materials and supplies that are not incidental. See Rev. Proc. 2001-10 and **Schedule A—Cost of Goods Sold** on page 16.

An organization changing to the accrual method because of this provision must complete **Form 3115,** Application for Change in Accounting Method, and attach it to Form 990-T for the year of change. An organization must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See Rev. Proc. 99-49, 1999-2 C.B. 725, as well as section 448 and Regulations sections 1.448-1(g) and 1.448-1(h) for more information on figuring this adjustment for 2001. Include any positive section 481(a) adjustment on line 12, page 1. If the section 481(a) adjustment is a negative, report it on line 28, page 1.

See section 460 for rules on long-term contracts.

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

Accounting Period

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

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

If the organization changes its accounting period, file Form 990-T for the short period that begins with the first day after the end of the old tax year and ends on the day before the first day of the new tax year. For the short period return, figure the tax by placing the organization's taxable income on an annual basis. For details, see Pub. 538 and section 443.

Reporting Form 990-T Information on Other Returns

Your organization may be required to file an annual information return on:

- **Form 990,** Return of Organization Exempt From Income Tax;
- **Form 990-EZ,** Short Form Return of Organization Exempt From Income Tax;
- **Form 990-PF,** Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation; **OR**
- **Form 5500,** Annual Return/Report of Employee Benefit Plan.

If so, include on that information return the unrelated business gross income and expenses (but not including the specific deduction claimed on line 33, page 1, or any expense carryovers from prior years) reported on Form 990-T for the same tax year.

Rounding Off to Whole Dollars

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

Attachments

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

Specific Instructions

Period Covered

File the 2001 return for calendar year 2001 or a fiscal year beginning in 2001 and ending 2002. For a fiscal year, fill in the tax year information at the top of the form.

Note: *The 2001 Form 990-T may also be used if:*

- The organization has a tax year of less than 12 months that begins and ends in 2002 and
- The 2002 Form 990-T is not available at the time the organization is required to file its return. The organization must show its 2002 tax year on the 2001 Form 990-T and take into account any tax law changes that are effective for tax years beginning after December 31, 2001.

Name and Address

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

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

 **Change of name.** *If the organization has changed its name, it must check the box next to "Name of organization" and also provide the following when filing this return, if it is:*

- A corporation or is incorporated with the state, an amendment to the articles of incorporation along with proof of filing with the state is required.
- A trust, an amendment to the trust agreement is required along with the trustee(s) signature.
- An association or an unincorporated association, an amendment to the articles of association, constitution, by-laws or other organizing document is required along with signatures of at least two officers/members.

Blocks A through J

Block A. If the organization has changed its address since it last filed a return, check Block A.

 **If a change in address occurs after the return is filed, use Form 8822, Change of Address, to notify the IRS of the new address.**

Block B. Check the box under which the organization receives its tax exemption.

Qualified pension, profit-sharing, and stock bonus plans should check the 501

box and enter "a" between the first set of parenthesis.

For other organizations exempt under section 501, check the box for 501 and enter the section that describes their tax exempt status, for example, 501(c)(3).

For tax exempts that **do not** receive their exemption under section 501, use the following guide.

| If you are a | Then check this box |
|---------------------------------|---------------------|
| IRA, SEP, or SIMPLE | 408(e) |
| Roth IRA | 408A |
| Archer MSA | 220(e) |
| Coverdell ESA | 530(a) |
| Qualified State Tuition Program | 529(a) |

Block C. Enter the total of the end-of-year assets from the organization's books of account.

Block D. An employees' trust described in section 401(a) and exempt under section 501(a) should enter its own trust identification number in this block.

An IRA trust enters its own EIN in this block. An IRA trust *never* uses a social security number or the trustee's EIN.

An EIN is obtained by filing **Form SS-4**, Application for Employer Identification Number.

Block E. Enter the applicable unrelated business activity code(s) that specifically describes the organization's unrelated business activity. If a specific activity code does not accurately describe the organization's activities, then choose a general code that best describes its activity. These codes are listed on page 20.

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

Block G. Check the box that describes your organization.

"Other trust" includes IRAs, SEPs, SIMPLEs, Roth IRAs, Coverdell IRAs, and Archer MSAs.

Section 529 organizations check the 501(c) corporation or 501(c) trust box depending on whether the organization is a corporation or a trust. Also, be sure the box for 529(a) in Block B is checked.

If you check "501(c) corporation," leave line 36 blank. If you check "501(c) trust," "401(a) trust," or "Other trust" leave lines 35a, b, and c blank.

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

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

1. The corporation is a subsidiary in an affiliated group (defined in section

1504) but is not filing a consolidated return for the tax year with that group.

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

Excluded member. If the corporation is an "excluded member" of a controlled group (see section 1563(b)(2)), it is still considered a member of a controlled group for purposes of Block I.

Block J. Enter the name of the person who has the organization's books and records and the telephone number at which he or she can be reached.

Part I—Unrelated Trade or Business Income

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

Extraterritorial income. Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use Form 8873 to figure the exclusion. Report it on Form 990-T under "Other deductions," line 28.

Line 1a—Gross Receipts or Sales

Enter the gross income from any unrelated trade or business regularly carried on that involves the sale of goods or performance of services.

 **A section 501(c)(7) social club would report its restaurant and bar receipts from nonmembers on line 1, but would report its investment income on line 9 and in Schedule G.**

Advance payments. In general, advanced payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advanced payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advanced payments for services by an accrual method organization, see Rev. Proc. 71-21, 1971-2 C.B. 549.

Installment sales. Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" is **(a)** any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or **(b)** any disposition of real property held for sale to customers in the ordinary course of the taxpayer's

trade or business. These restrictions on using the installment method do not apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots for which the organization elects to pay interest under section 453(l)(3).

For sales of timeshares and residential lots reported under the installment method, the organization's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 42.

Enter on line 1a (and carry to line 3), the gross profit on collections from installment sales for any of the following:

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a schedule showing the following information for the current and the 3 preceding years:

1. Gross sales,
2. Cost of goods sold,
3. Gross profits,
4. Percentage of gross profits to gross sales,
5. Amount collected, and
6. Gross profit on amount collected.

Nonaccrual experience method.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services that, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to pay the amount on time. Organizations that fall under this provision should attach a schedule showing total gross receipts, amounts not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a.

For more information and guidelines on this "nonaccrual experience method," see Temporary Regulations section 1.448-2T.

Line 4a—Capital Gain Net Income

Generally, organizations required to file Form 990-T (except organizations described in sections 501(c)(7), (9), and (17)) are not taxed on the net gains from the sale, exchange, or other disposition of property. However, net capital gains on debt-financed property, capital gains on cutting timber, and ordinary gains on sections 1245, 1250, 1252, 1254, and 1255 property are taxed. See **Form 4797**, Sales of Business Property, and its instructions for additional information.

Also, any capital gain or loss passed through from an S corporation or any gain

or loss on the disposition of S corporation stock by a *qualified tax exempt* (see **S Corporations** under the line 5 instructions) is taxed as a capital gain or loss.

Capital gains and losses should be reported by a trust on **Schedule D (Form 1041)**, Capital Gains and Losses, and by a corporation on **Schedule D (Form 1120)**, Capital Gains and Losses.

An organization that transfers securities it owns for the contractual obligation of the borrower to return identical securities recognizes no gain or loss. To qualify for this treatment, the organization must lend the securities under an agreement that requires:

1. The return of identical securities;
2. The payment of amounts equivalent to the interest, dividends, and other distributions that the owner of the securities would normally receive; and
3. The risk of loss or opportunity for gain not be lessened.

See section 512(a)(5) for details.

Debt-financed property disposition.

The amount of gain or loss to be reported on the sale, exchange, or other disposition of debt-financed property is the same percentage as the highest acquisition indebtedness for the property for the 12-month period before the date of disposition is to the average adjusted basis of the property. The percentage may not be more than 100%. See the instructions for Schedule E, column 5, to determine adjusted basis and average adjusted basis.

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

Example. On January 1, 2000, an exempt educational corporation, using \$288,000 of borrowed funds, purchased an office building for \$608,000. The only adjustment to basis was \$29,902 for depreciation (straight line method under MACRS over the 39-year recovery period for nonresidential real property). The corporation sold the building on December 31, 2001, for \$640,000. At the date of sale, the adjusted basis of the building was \$578,098 (\$608,000 – \$29,902) and the indebtedness remained at \$288,000. The adjusted basis of the property on the first day of the year of disposition was \$593,037. The average adjusted basis is \$585,568 $(\$593,037 + \$578,098) \div 2$. The debt/basis percentage is 49% $(\$288,000 \div \$585,568)$.

The taxable gain is \$30,332 $(49\% \times (\$640,000 - \$578,098))$. This is a long-term capital gain. A corporation should enter the gain on line 6, Part II, Schedule D (Form 1120). A trust should enter the gain on Schedule D (Form 1041). Both should attach a statement to

the return showing how the gain was figured.

Line 4b—Net Gain or (Loss)

Show gains and losses on other than capital assets on Form 4797. Enter on this line the net gain or (loss) from Part II, line 18, Form 4797.

An exempt organization using Form 4797 to report ordinary gain on sections 1245, 1250, 1252, 1254, and 1255 property will include only depreciation, amortization, or depletion allowed or allowable in figuring unrelated business taxable income or taxable income of the organization (or a predecessor organization) for a period when it was not exempt.

Line 4c—Capital Loss Deduction for Trusts

If a trust has a net capital loss, it is subject to the limitations of Schedule D (Form 1041). Enter on this line the loss figured on Schedule D (Form 1041).

Line 5—Income or (Loss) From Partnerships and S Corporations

Combine all partnership income or loss (determined below) with all S corporation income or loss and enter it on line 5.

However, for limitations on losses for certain activities, see Form 6198 and, for trusts, **Form 8582**, Passive Activity Loss Limitations, or, for corporations, **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, and sections 465 and 469.

Partnerships

If the organization is a partner in a partnership carrying on an unrelated trade or business, enter the organization's share (whether or not distributed) of the partnership's income or loss from the unrelated trade or business.

Figure the gross income and deductions of the partnership in the same way you figure unrelated trade or business income the organization earns directly.

Attachment. Attach a statement to this return showing the organization's share of the partnership's gross income from the unrelated trade or business, and its share of the partnership deductions directly connected with the unrelated gross income. Also, see **Attachments** on page 6 for other information you need to include.

S Corporations

For tax years beginning after December 31, 1997, *qualified tax exempts* can be shareholders in an S corporation without the S corporation losing its status as an S corporation. *Qualified tax exempts* that hold stock in an S corporation treat their stock interest as an unrelated trade or business. **All** items of income, loss, or deduction are taken into account in

figuring unrelated business taxable income. Report on line 4 any gain or loss on the disposition of S corporation stock.

Qualified tax exempts. A qualified tax exempt is an organization that is described in section 401(a) (qualified stock bonus, pension, and profit-sharing plans) or 501(c)(3) and exempt from tax under section 501(a).

Exception. Employer stock ownership plans (ESOPs) do not follow these S corporation rules if the S corporation stock is an employer security as defined in section 409(l).

Attachment. Attach a statement to this return showing the qualified tax exempt's share of all items of income, loss, or deduction. Show capital gains and losses separately and include them on line 4a. Combine the income, loss, and deductions (except for the capital gains and losses) on the statement. If you hold stock in more than one S corporation, total the combined amounts. Also, see **Attachments** on page 6 for other information you need to include.

Line 12—Other Income

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

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

1. To provide for the payment of insurance benefits; or
2. For a purpose specified in section 170(c)(4) (religious, charitable, scientific, literary, educational, etc.); or
3. For administrative costs directly connected with benefits described in 1 and 2 above.

Amounts set aside and used for purposes other than those in 1, 2, or 3 above, must be included in unrelated business taxable income for the tax year if they were previously excluded from taxable income.

Any amount spent for a purpose described in section 170(c)(4) is first considered paid from funds earned by the organization from insurance activities if the income is not used for the insurance activities.

Expenditures for lobbying are not considered section 170(c)(4) expenses.

- *Income from property financed with qualified 501(c)(3) bonds.* If any part of the property is used in a trade or business of any person other than a section 501(c)(3) organization or a governmental unit, your section 501(c)(3) organization is

considered to have received unrelated business income in the amount of the greater of the actual rental income or the fair rental value of the property for the period it is used. No deduction is allowed for interest on the private activity bond. Report the greater of the actual rent or the fair rental value on line 12. Report allowable deductions in Part II. See section 150(b)(3) for more information.

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

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

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

Part II—Deductions Not Taken Elsewhere

If the amount on Part I, line 13, column (A), is \$10,000 or less, you do not have to complete lines 14 through 28 of Part II. However, you must complete lines 29 through 34 of Part II.

Directly connected expenses. Only expenses directly connected with unrelated trade or business income (except contributions) may be deducted on these lines (see **Directly connected expenses** on page 3). Contributions may be deducted, whether or not directly connected. Do not separately include in Part II any expenses that are reported in Schedules A through J, other than excess exempt expenses entered on line 26 and excess readership costs entered on line 27. For example, officers' compensation allocable to advertising income is reported on Schedule J only, and should not be included on Schedule K or line 14 of Part II.

Limitations on Deductions

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

Activities Lacking a Profit Motive

If income is attributable to an activity lacking a profit motive, a loss from the activity cannot be claimed on Form 990-T.

Therefore, in Part I, column (B) and Part II, the total of deductions for expenses directly connected with income from an activity lacking a profit motive is limited to the amount of that income. Generally, an activity lacking a profit motive is one that is not conducted for the purpose of producing a profit or one that has consistently produced losses when both direct and indirect expenses are taken into account.

Transactions Between Related Taxpayers

Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See sections 163(e)(3), 163(j), and 267 for limitations on deductions for unpaid interest and expenses.

Preference Items

Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment.

Section 263A Uniform Capitalization Rules

These rules require organizations to capitalize or include as inventory cost certain costs incurred in connection with:

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property held in inventory (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property produced by the organization for use in its trade or business or in an activity engaged in for profit.

Tangible personal property produced by an organization includes a film, sound recording, videotape, book, or similar property.

Indirect expenses. Organizations subject to the section 263A uniform capitalization rules are required to capitalize direct costs and an allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale or are incurred by reason of the performance of production or resale activities.

For inventory, some of the indirect expenses that must be capitalized are:

- Administration expenses,
- Taxes,
- Depreciation,
- Insurance,
- Compensation paid to officers attributable to services,
- Rework labor, and

- Contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Regulations section 1.263A-1(e)(3) specifies other indirect costs that relate to production or resale activities that must be capitalized and those that may be currently deductible.

Interest expense. Interest expense paid or incurred during the production period of designated property must be capitalized and is governed by special rules. For more details, see Regulations section 1.263A-8 through 1.263A-15.

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

Exceptions. Section 263A does not apply to:

- Personal property acquired for resale if the organization's average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.
- Most property produced under long-term contract.
- Certain property produced in a farming business.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.
- Inventory of an organization that accounts for inventories in the same manner as materials and supplies that are not incidental. See **Schedule A—Cost of Goods Sold** on page 16 for details.

Additional information. For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3.

Travel, Meals, and Entertainment

Subject to limitations and restrictions discussed below, an organization can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for more details.

Travel. The organization cannot deduct travel expenses of any individual accompanying an organization's officer or employee, including a spouse or dependent of the officer or employee, unless:

- That individual is an employee of the organization and
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

Meals and entertainment. Generally, the organization can deduct only 50% of

the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant;
- A bona fide business discussion must occur during, immediately before, or immediately after the meal; and
- An employee of the organization must be present at the meal.

Membership dues. The organization may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for members or their guests. In addition, organizations may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

Entertainment facilities. The organization cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered entertainment, amusement, or recreation.



The organization may be able to deduct otherwise nondeductible travel, meals, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or Form 1099-MISC for an independent contractor.

Certain Expenses For Which Credits Are Allowable

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

1. The credit for increasing research activities,
2. The enhanced oil recovery credit,
3. The disabled access credit,
4. The employer credit for social security and Medicare taxes paid on certain employee tips, and
5. The orphan drug credit.

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

Business Startup Expenses

Business startup expenses must be capitalized unless an election is made to amortize them over a period of 60

months. See section 195 and Regulations section 1.195-1.

Line 16—Repairs and Maintenance

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

Line 17—Bad Debts

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

Line 18—Interest

Attach a separate schedule listing the interest being claimed on this line.

• **Interest allocation.** If the proceeds of a loan were used for more than one purpose (e.g., to purchase a portfolio investment and to acquire an interest in a passive activity), an interest allocation must be made. See Temporary Regulations section 1.163-8T for the interest allocation rules.

• **Tax-exempt interest.** Do not include interest on indebtedness incurred or continued to purchase or carry obligations, on which the interest income is totally exempt from income tax. For exceptions, see section 265(b).

• **Prepaid interest.** Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, in 2001 a cash basis calendar year taxpayer prepaid interest on a loan. The taxpayer can deduct only that part of the prepaid interest that was for the use of the loan before January 1, 2002.

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

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

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

• **Interest allocable to the production of designated property.** Do not deduct interest on debt allocable to the production of designated property. Interest that is allocable to such property produced by an organization for its own use or for sale must be capitalized. An organization must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15 for definitions and more information.

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

Line 19—Taxes and Licenses

Enter taxes and license fees paid or accrued during the year, but do not include the following:

- Federal income taxes.
- Foreign or U.S. possession income taxes if a tax credit is claimed. **Note:** For special rules on possession income taxes, see the Instructions for **Form 5735**, *Possessions Corporation Tax Credit (Under Sections 936 and 30A)*.
- Taxes not imposed on your organization.
- Taxes, including state or local sales taxes, paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of good sold.

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

Line 20—Charitable Contributions

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

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

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

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

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

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

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

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

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

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

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

Trusts. In general:

1. For contributions to organizations described in section 170(b)(1)(A), the amount claimed may not be more than 50% of the unrelated business taxable income figured without this deduction; and
2. For contributions to other organizations, the amount claimed may not be more than the smaller of:
 - a. 30% of unrelated business taxable income figured without this deduction; or
 - b. The amount by which 50% of the unrelated business taxable income is more than the contributions allowed in 1 above.



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

Substantiation requirements.

Generally, no deduction is allowed for any contribution of \$250 or more, unless the organization gets a written acknowledgment from the charitable organization by the earlier of the due date (including extensions) for filing Form

990-T, or the date Form 990-T is filed. However, see section 170(f)(8) and the related regulations for exceptions to this rule. **Do not** attach the written acknowledgment to Form 990-T, but keep it with the organization's records.

The written acknowledgment must show:

1. The amount of cash contributed,
2. A description of any property contributed,
3. Whether the charitable organization provided any goods or services to the donor, and
4. A description and a good-faith estimate of the value of any goods and services provided to the donor in exchange for the donation, unless:
 - a. The goods and services have insubstantial value,
 - b. A statement is included that these goods and services consist solely of intangible religious benefits, or
 - c. Certain types of benefits are received that are customarily provided in exchange for membership payments of \$75 or less a year.

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

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

Contributions to organizations conducting lobbying activities.

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

- The lobbying activities relate to matters of direct financial interest to the donor's trade or business, and
- The principal purpose of the contribution was to avoid Federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor. See section 170(f)(9) for more details.

Contributions of computer technology and equipment to schools.

A corporation may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment for educational purposes. A contribution is a qualified contribution if:

- It is made to an eligible donee (see below):

• Substantially all of the donee property's use is:

1. Related to the purpose or function of the donee;
 2. For use within the United States; and
 3. For educational purposes.
- The contribution is made not later than 3 years after the date the taxpayer acquired or substantially completed the construction of the property;
 - The original use of the property is by the donor or the donee;
 - The property is not transferred by the donee for money, services, or other property, except for shipping, transfer, and installation costs;
 - The property fits productively into the donee's education plan; and
 - The property meets standards, to be prescribed by regulations, to assure it meets minimum functionality and suitability for educational purposes.

Eligible donee. The term "eligible donee" means:

- An educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place where its educational activities are regularly conducted,
- A section 501(c)(3) entity organized primarily for purposes of supporting elementary and secondary education, or
- A public library (as described in section 170(e)(6)(B)(i)(III)).

Special rules. Qualified computer contributions may also include:

- Contributions of computer technology or equipment to private foundations (see section 170(e)(6)(C)) and
- Contributions of computers reacquired by the computer manufacturer (see section 170(e)(6)(D)).

Line 21—Depreciation

Besides depreciation, include on line 21 the part of the cost, under section 179, that the organization elected to expense for certain tangible property placed in service during tax year 2001 or carried over from 2000. See **Form 4562**, Depreciation and Amortization, and its instructions.

Line 23—Depletion

See sections 613 and 613A for percentage depletion rates for natural deposits. Attach **Form T**, Forest Activities Schedules, if a deduction is taken for depletion of timber.

Line 24—Contributions to Deferred Compensation Plans

Employers who maintain pension, profit-sharing, or other funded deferred compensation plans are generally required to file Form 5500. This requirement applies whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax

year. Section 6652(e) imposes a penalty for late filing of these forms. In addition, there is a penalty for overstating the pension plan deduction. See section 6662(f).

Line 25—Employee Benefit Programs

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

Line 28—Other Deductions

Enter on this line the deduction taken for amortization (see Form 4562) as well as other authorized deductions for which no space is provided on the return. Attach a separate schedule listing the deductions claimed on this line. Deduct only items directly connected with the unrelated trade or business for which income is reported in Part I.

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

Line 31—Net Operating Loss (NOL) Deduction

The NOL deduction is the total of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a).

To be deductible, an NOL must have been incurred in an unrelated trade or business activity. The amount of an NOL carryback or carryover is determined under section 172. See Regulations section 1.512(b)-1(e). For more information about NOLs, see **Pub. 536**, Net Operating Losses.

Line 33—Specific Deduction

A specific deduction of \$1,000 is allowed except for computing the net operating loss and the net operating loss deduction under section 172.

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

The diocese, province of a religious order, or convention or association of churches must file a return reporting the

gross income and deductions of all its units that are not separate legal entities. These local units cannot file separate returns because they are not separately incorporated. Local units that are separately incorporated must file their own returns and cannot be included with any other entity except for a title holding company. See the instructions under **Consolidated Returns** on page 5.

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

Part III—Tax Computation

Lines 35a and 35b

Corporate members of a controlled group, as defined in section 1563, must check the box on line 35 and complete lines 35a and 35b.

Members of a controlled group are entitled to one \$50,000, one \$25,000, and one \$9,925,000 taxable income bracket amount (in that order) on line 35a.

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

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

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

Additional 5% tax and additional 3% tax. Members of a controlled group are treated as one corporation to figure the applicability of the additional 5% tax that must be paid by corporations with taxable income over \$100,000 and the additional

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

Lines 35c and 36

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

Line 35c—Corporations

Use the Tax Rate Schedule for Corporations below to figure the tax. **Exception:** Members of a controlled group use the Tax Computation Worksheet for Members of a Controlled Group on this page to figure the tax. Members of a controlled group should see the instructions on page 12 for lines 35a and 35b. **Members of a controlled group must attach a statement showing the computation of the tax entered on line 35c.**

Tax Rate Schedule for Corporations (Internal Revenue Code – Section 11)

| If the amount on line 34, page 1 is: | | Enter on line 35c, page 2: | |
|--------------------------------------|---------------|----------------------------|---------------------|
| Over— | But not over— | Tax is: | Of the amount over— |
| \$0 | \$50,000 | 15% | \$0 |
| 50,000 | 75,000 | \$ 7,500 + 25% | 50,000 |
| 75,000 | 100,000 | 13,750 + 34% | 75,000 |
| 100,000 | 335,000 | 22,250 + 39% | 100,000 |
| 335,000 | 10,000,000 | 113,900 + 34% | 335,000 |
| 10,000,000 | 15,000,000 | 3,400,000 + 35% | 10,000,000 |
| 15,000,000 | 18,333,333 | 5,150,000 + 38% | 15,000,000 |
| 18,333,333 | ----- | 35% | 0 |

Tax Computation Worksheet for Members of a Controlled Group (Keep for your records)

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

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

Line 36—Trusts

Trusts exempt under section 501(a), which otherwise would be subject to subchapter J (estates, trusts, etc.), are taxed at trust rates. This rule also applies to employees' trusts that qualify under section 401(a). Most trusts figure the tax on the amount on line 34 using the Tax Rate Schedule for Trusts, below. If the tax rate schedule is used, enter the tax on line 36 and check the "tax rate schedule" box on line 36. If the trust is eligible for the rates on net capital gains, complete Schedule D (Form 1041) and enter the tax from Schedule D (Form 1041) on page 2, line 36. Check the "Schedule D" box on line 36 and attach Schedule D (Form 1041) to Form 990-T.

Tax Rate Schedule for Trusts (Internal Revenue Code – Section 1(e))

| If the amount on line 34, page 1 is: | | Enter on line 36, page 2: | |
|--------------------------------------|---------------|---------------------------|---------------------|
| Over— | But not over— | Tax is: | Of the amount over— |
| \$0 | \$1,800 | 15% | \$0 |
| 1,800 | 4,250 | \$270.00 + 27.5% | 1,800 |
| 4,250 | 6,500 | 943.75 + 30.5% | 4,250 |
| 6,500 | 8,900 | 1,630.00 + 35.5% | 6,500 |
| 8,900 | ---- | 2,482.00 + 39.1% | 8,900 |

Line 37—Proxy Tax

To pay the section 6033(e)(2) proxy tax on nondeductible lobbying and political expenditures, enter the proxy tax on line

37 and attach a schedule showing the computation.

Exempt organizations, **except section 501(c)(3) and certain other organizations**, must include certain information regarding lobbying expenditures on Form 990. In addition, organizations may have to provide notices to members regarding their share of dues to which the expenditures are allocable. See Form 990 instructions and Rev. Proc. 95-35, 1995-2 C.B. 391 and Rev. Proc. 95-35A, 1995-2 C.B. 392 for exceptions and other details.

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

Line 38—Alternative Minimum Tax

Organizations liable for tax on unrelated business taxable income may be liable for alternative minimum tax on certain adjustments and tax preference items. Trusts attach **Schedule I**, Alternative Minimum Tax, of Form 1041 and enter any tax from Schedule I on this line. A corporation, unless it is treated as a "small corporation" exempt from the alternative minimum tax, may have to attach **Form 4626**, Alternative Minimum Tax—Corporations, and enter any tax from Form 4626 on this line. See the Instructions for Form 4626 for the definition of a small corporation.

Part IV—Tax and Payments

Line 40a—Foreign Tax Credit

- Corporations.** See **Form 1118**, Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.
- Trusts.** See **Form 1116**, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual), for rules on how the trust computes the foreign tax credit.

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

Line 40b—Other Credits

- Possessions tax credit.** The Small Business Job Protection Act of 1996 repealed the possessions credit. However, existing claimants may qualify for a credit under the transitional rules. See the Instructions for Form 5735.

- **Nonconventional source fuel credit.** A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit. Also, see **Form 8801**, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, or **Form 8827**, Credit for Prior Year Minimum Tax—Corporations, if any of the 2000 nonconventional source fuel credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

- **Qualified electric vehicle credit.** Include on line 40b any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

Line 40c—General Business Credit

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

1. Two or more of the credits listed below; OR
2. A credit carryforward or carryback (including one from an ESOP credit); OR
3. A passive activity credit (other than the low-income housing credit); OR
4. General credits from an electing large partnership.

Enter the amount of the general business credit on line 40c and check the Form 3800 box on that line. Attach Form 3800 and the other applicable credit forms to Form 990-T.

Form 3800 is not required if the organization has only one of the general business credits (and items 2-4 above do not apply). Instead, attach the applicable credit form(s) to the return; check the "Form(s)" box; specify the form number(s) in the space provided, and include the amount of the credit(s) on line 40c.

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

- Investment Credit, **Form 3468**.
- Credit for Alcohol Used as Fuel, **Form 6478**.
- Credit for Increasing Research Activities, **Form 6765**.
- Low-Income Housing Credit, **Form 8586**.
- Orphan Drug Credit, **Form 8820**.
- Disabled Access Credit, **Form 8826**.
- Enhanced Oil Recovery Credit, **Form 8830**.
- Renewable Electricity Production Credit, **Form 8835**.
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, **Form 8846**.
- Credit for Contributions to Selected Community Development Corporations, **Form 8847**.
- New Markets Credit, **Form 8874**.

Line 40d—Credit for Prior Year Minimum Tax

Use Form 8801 to figure the minimum tax credit and any carryforward of that credit for trusts. For corporations, use Form 8827.

Line 42—Other Taxes

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

Recapture of low-income housing credit. If the organization disposed of property (or there was a reduction in the qualified basis of the property) for which it took the low-income housing credit, it may owe a tax. See **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j) for details.

Interest due under the look-back method. If the organization used the look-back method for certain long-term contracts, see Form 8697 for information on figuring the interest the organization may have to include.

The organization may also have to include interest due under the look-back method for property depreciated under the income forecast method. See **Form 8866**, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method.

Other. Additional taxes and interest amounts may be included in the total entered on line 42. Check the box for "Other" if the organization includes any of the taxes and interest discussed below. See **How to report**, below, for details on reporting these amounts on an attached schedule.

- Recapture of qualified electric vehicle (QEV) credit. The organization must recapture part of the QEV credit it claimed in a prior year if within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.301-1 for details on how to figure the recapture.
- Tax and interest on a nonqualified withdrawal from a capital construction fund (section 7518).
- Interest on deferred tax attributable to (a) installment sales of certain timeshares and residential lots (section 453(l)(3)) and (b) certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).

How to report. If the organization checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 42. In addition, identify (a) the applicable Code section, (b) the type of tax or interest, and (c) enter the amount of tax or interest. For example, if the

organization is reporting \$100 of tax due from the recapture of the QEV credit, write "Section 30-QEV recapture tax-\$100" on the attached schedule.

Line 43—Total Tax

Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 43. See Form 8621, Part V, and **How to report**, below.

Subtract from the total entered on line 43 any deferred tax on the corporation's share of undistributed earnings of a qualified electing fund (see Form 8621, Part II).

How to report. Attach a schedule showing the computation of each item included in, or subtracted from, the total on line 43. On the dotted line next to line 43, specify (a) the applicable Code section, (b) the type of tax, and (c) enter the amount of tax.

Line 44b—Estimated Tax

Enter the total estimated tax payments made for the tax year.

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

Line 44d—Foreign Organizations

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

Line 44e—Backup Withholding

Recipients of dividend or interest payments must generally certify their correct tax identification number to the bank or other payer on W-9. If the payer does not get this information, it must withhold part of the payments as "backup withholding." If your organization was subject to erroneous backup withholding because the payer did not realize you were an exempt organization and not subject to this withholding, you can claim credit for the amount withheld by including it on line 44e. See **Backup Withholding** under **Which Parts To Complete** on page 5.

Line 44f—Other Credits and Payments

Enter on this line the following:

- **Credit from regulated investment company (RIC) or real estate investment trust (REIT).** Attach Form

2439, Notice to Shareholder of Undistributed Long-Term Capital Gains. If you are filing a composite Form 990-T, see **Composite Form 990-T** under **Which Parts To Complete** on page 4 of these instructions.

• **Credit for ozone-depleting**

chemicals. Include on line 44f any credit the organization is claiming under section 4682(g) for taxes paid on chemicals used as propellants in metered-dose inhalers.

• **Credit for Federal tax paid on fuels.** Attach **Form 4136**, Credit for Federal Tax Paid on Fuels, if the organization qualifies to take this credit.

 **Form 8849**, Claim for Refund of Excise Taxes, may be used to claim a periodic refund of excise taxes instead of waiting to claim a credit on Form 4136. See the instructions for Form 8849 and **Pub. 378**, Fuel Tax Credits and Refunds, for more information.

Line 47—Tax Due

Domestic organizations owing less than \$500 and foreign organizations that **do not** have an office or place of business in the United States should enclose a check or money order (in U.S. funds), made payable to the United States Treasury, with Form 990-T.

Domestic organizations owing \$500 or more and foreign organizations with an office or place of business in the United States should see **Depository Method of Tax Payment** on page 3.

Part V—Statements Regarding Certain Activities and Other Information

Complete all items in Part V.

Line 1. Check “Yes” if either 1 or 2 below applies:

1. At any time during the year the organization had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

a. The combined value of the accounts was more than \$10,000 at any time during the year; AND

b. The accounts were NOT with a U.S. military banking facility operated by a U.S. financial institution.

2. The organization owns more than 50% of the stock in any corporation that would answer “Yes” to item 1 above.

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

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the organization is considered to have an interest in or signature or other authority over a financial account in a

foreign country (such as a bank account, securities account, or other financial account). The organization can obtain Form TD F 90-22.1 from the IRS Forms Distribution Center or by calling 1-800-TAX-FORM (1-800-829-3676) or by downloading it from the IRS Web Site at www.irs.gov. If the organization is required to file this form, file it by June 30, 2002, with the Department of the Treasury at the address shown on the form. Do not file it with the IRS or attach it to Form 990-T.

Line 2. The organization may be required to file **Form 3520**, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, if:

- It directly or indirectly transferred money or property to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.
- It received a distribution from a foreign trust.

For more information, see the instructions for Form 3520.

 An owner of a foreign trust must ensure that the trust files an **Form 3520-A**, Annual Information Return of Foreign Trust With a U.S. Owner. For details, see the Instructions for Form 3520-A.

Line 3. Report any tax-exempt interest received or accrued in the space provided. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Signature

Corporations. The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or by any other corporate officer (such as tax officer) authorized to sign. Receivers, trustees, or assignees must also sign and date any return filed on behalf of the organization.

Trusts. The return must be signed and dated by the individual fiduciary, or by the authorized officer of the trust receiving or having custody or control and management of the income of the trust. If two or more individuals act jointly as fiduciaries, any one of them may sign.

Special rule for IRA trusts. A trustee of IRA trusts may use a facsimile signature if all of the following conditions are met:

- Each group of returns sent to the IRS must be accompanied by a letter signed by the person authorized to sign the returns declaring, under penalties of perjury, that the facsimile signature appearing on the returns is the signature adopted by that person to sign the returns filed and that the signature was affixed to

the returns by that person or at that person’s direction.

- The letter must also list each return by the name and EIN of the IRA trust.
- After the facsimile signature is affixed, no entries on the return may be altered other than to correct discernible arithmetic errors.
- A manually signed copy (of the letter submitted to the IRS with the returns and a record of any arithmetic errors corrected) must be retained on behalf of the IRA trusts listed in the letter and it must be available for inspection by the IRS.

 The above instructions regarding facsimile signatures **do not** apply to paid preparers.

Paid preparer. If an officer of the organization filled in its return, the paid preparer’s space should remain blank. Anyone who prepares the return but does not charge the organization should not sign the return. Certain others who prepare the return should not sign. For example, a regular, full-time employee of the organization, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare the organization’s tax return must sign it and fill in the “Paid Preparer’s Use Only” area.

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

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

Paid Preparer Authorization. If the organization wants to allow the IRS to discuss its 2001 tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the return. This authorization applies only to the individual whose signature appears in the “Paid Preparer’s Use Only” section of its return. It does not apply to the firm, if any, shown in that section.

If the “Yes” box is checked, the organization is authorizing the IRS to call the paid preparer to:

- Give the IRS any information that is missing from its return,
- Call the IRS for information about the processing of its return or the status of its refund or payment(s), and
- Respond to certain IRS notices that the organization has shared with the preparer about a math error, offsets, and return preparation. The notices will not be sent to the preparer.

The organization is not authorizing the paid preparer to receive any refund check, bind the organization to anything (including any additional tax liability), or otherwise represent the organization before the IRS. If the organization wants to expand the paid preparer’s

authorization, see **Pub. 947**, Practice Before the IRS and Power of Attorney.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2002 Form 990-T.

Schedule A—Cost of Goods Sold

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1.

However, if the organization is a qualifying taxpayer, it may adopt or change its accounting method to account for inventory items in the same manner as materials and supplies that are not incidental. A **qualifying taxpayer** is a taxpayer **(a)** whose average annual gross receipts for the 3 prior tax years is \$1 million or less and **(b)** whose business is not a tax shelter (as defined in section 448(d)(3)).

Under this accounting method, inventory cost for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year the organization paid for the raw materials or merchandise if it is also using the cash method). Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the organization can deduct for the tax year is figured on line 7. For additional guidance on this method of accounting for inventory items, see Rev. Proc. 2001-10 and Pub. 538.

All filers not using the cash method of accounting should see Section 263A uniform capitalization rules in the instructions for **Limitations on Deductions** on page 9 before completing Schedule A. The instructions for lines 4a, 4b, and 6 below apply to Schedule A.

Inventory valuation methods.

Inventories can be valued at:

1. Cost as described in Regulations section 1.471-3,
2. Lower of cost or market as described in Regulations section 1.471-4, or
3. Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

However, if the organization chooses to account for inventory items as materials and supplies that are not incidental, it is required to use cost.

A small producer is one whose average annual gross receipts are \$1 million or less. Small producers that account for inventories in the same manner as materials and supplies that are

not incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

The average cost (rolling average) method of valuing inventories generally does not conform to the requirement of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148.

Organizations that use erroneous valuation methods must change to a method permitted for Federal income tax purposes. To make this change, file Form 3115.

Inventory may be valued below cost when the merchandise is unsalable at normal prices, or unusable in the normal way because the goods are subnormal because of damage, imperfections, shop wear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at the current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established.

If this is the first year the Last-in First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970.

If the organization changed or extended its inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of this write up as other income (line 12, page 1) proportionately over a 3-year period that begins in the tax year the LIFO election was made (section 472(d)).

Schedule A, line 1. If the organization is changing its method of accounting to no longer account for inventories, it must refigure last year's closing inventory using the new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the organization's section 481(a) adjustment (explained on page 6).

Schedule A, line 4a. An entry is required on this line only for organizations that have elected a simplified method of accounting.

For organizations that have elected the **simplified production method**, additional section 263A costs are generally those costs, other than interest, that are now required to be capitalized under section 263A but that were not capitalized under the organization's method of accounting immediately prior to the effective date of section 263A. For details, see Regulations section 1.263A-2(b).

For organizations that have elected the **simplified resale method**, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, such as processing, assembling, repackaging and transporting; and general and administrative costs (mixed service costs). For details, see Regulations section 1.263A-3(d).

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

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

Schedule A, line 6. See Regulations sections 1.263A-1 through 3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

If the organization accounts for inventories in the same manner as materials and supplies that are not incidental, enter on line 6 the portion of its raw materials and merchandise purchased for resale that are included on line 5 and were not sold during the year.

Schedule C—Rent Income

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

All organizations that have applicable rent income, other than section 501(c)(7), (9), and (17) organizations, should complete Schedule C on page 3 of the return. For organizations other than section 501(c)(7), (9), and (17) organizations, only the following rents are taxable in Part I, line 6:

1. Rents from personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued under the lease, determined at the time the personal property is placed in service.

2. Rents from real and personal property if:

a. More than 50% of the total rents received or accrued under the lease are for personal property; or

b. The amount of the rent depends on the income or profits derived by any person from the property leased (except an amount based on a fixed percentage of receipts or sales).

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

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

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

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

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

Schedule E—Unrelated Debt-Financed Income

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

When debt-financed property is held for exempt purposes and other purposes, the organization must allocate the basis, debt, income, and deductions among the purposes for which the property is held. Do not include in Schedule E amounts allocated to exempt purposes.

 For section 514 purposes, **do not treat an interest in a qualified state tuition program (QSTP) as debt.** However, a QSTP's investment income is treated as debt-financed income if the QSTP incurs indebtedness when acquiring or improving income-producing property.

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

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

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

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

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

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

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

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

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

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

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

Column 7. The amount of income from debt-financed property included in unrelated trade or business income is

figured by multiplying the property's gross income by the percentage obtained from dividing the property's average acquisition indebtedness for the tax year by the property's average adjusted basis during the period it is held in the tax year. This percentage cannot be more than 100%.

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

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

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

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

Example 1. An exempt organization owns a four-story building. Two floors are used for an exempt purpose and two floors are rented (as an unrelated trade or business) for \$10,000. Expenses are \$1,000 for depreciation and \$5,000 for other expenses that relate to the entire building. The average acquisition indebtedness is \$6,000, and the average adjusted basis is \$10,000. Both apply to the entire building.

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

Example 2. Assume the same facts as in *Example 1*, except the entire building is rented out as an unrelated

trade or business for \$20,000. To complete Schedule E for this example, enter \$20,000 in column 2, \$1,000 and \$5,000 in columns 3(a) and 3(b), respectively (since the entire amount is for debt-financed property), \$6,000 and \$10,000 in columns 4 and 5 (since the entire amount is for debt-financed property), 60% in column 6, \$12,000 in column 7, and \$3,600 in column 8.

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

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

Controlled Organization

An entity is a “controlled organization” if the controlling organization owns:

- By vote or value more than 50% of a corporation’s stock (for an organization that is a corporation);
- More than 50% of a partnership’s profits or capital interests (for an organization that is a partnership); or
- More than 50% of the beneficial interests in an organization (for an organization other than a corporation or partnership).

To determine the ownership of stock in a corporation, apply the principles of section 318 (constructive ownership of stock). Apply similar principles to determine the ownership of interests in a partnership or any other organization.

Specified payment means any payment of interest, annuity, royalty, or rent. Include the specified payment in gross income to the extent that the payment reduces the *net unrelated income* (or increases the *net unrelated loss*) of the controlled organization.

If any part of a specified payment is included in gross income, Schedule F must be completed.

Net unrelated income means:

- For a controlled organization that **is exempt** from tax under section 501(a), the unrelated business taxable income of the controlled organization.
- For a controlled organization that **is not exempt** from tax under section 501(a), the part of the controlled organization’s taxable income that would be unrelated business taxable income if the controlled organization was tax exempt under section 501(a) and had the same tax-exempt purpose as the controlling organization.

Net unrelated loss means the net operating loss using rules similar to those discussed under **Net unrelated income**.

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

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

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

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

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

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

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

1. Religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals;
2. The payment of life, sick, accident, or other benefits by a section 501(c)(9) or (17) organization. The amount allowed as a set aside may not exceed a limit determined using section 419A. See sections 419A and 512(a)(3)(E) for details;
3. Reasonable administration costs directly connected with 1 and 2 above.

Report income set aside in column 4 of Schedule G. Amounts set aside are not

deductible under section 170 or any other section of the Code.

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

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

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

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

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

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

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

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

Exempt organizations (other than section 501(c)(7), (9), or (17) organizations) that have gross income from an unrelated trade or business activity that exploits an exempt activity (other than advertising income) should

complete Schedule I. See Regulations section 1.513-1(d)(4)(iv) for a definition of exploited exempt activity.

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

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

Therefore, the net includible exploited exempt activity income is the unrelated business taxable income minus the excess of the exempt activity expenses over the exempt activity income. If the income from the exempt activity exceeds the exempt activity expenses, do not add that profit to the net income from the unrelated business activity. If two or more unrelated trade or business activities exploit the same exempt activity, treat those activities as one on Schedule I. Attach a separate schedule showing the computation.

Schedule J—Advertising Income

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

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

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

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

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

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

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

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

Schedule K—Compensation of Officers, Directors, and Trustees

Complete columns 1 through 4, Schedule K, for those officers, directors, and trustees whose salaries or other compensation are allocable to unrelated business gross income. Do not include in column 4 compensation that is deducted on lines 15, 28, or Schedules A through J of Form 990-T.

Include on Schedule K (or elsewhere on the return) only compensation that is directly attributable to the unrelated trade or business activities of the organization. If personnel is used both to carry on exempt activities and to conduct unrelated trade or business activities, the salaries and wages of those individuals will be allocated between the activities.

For example, assume an exempt organization derives gross income from the conduct of certain unrelated trade or business activities. The organization pays its president a salary of \$65,000 a year. Ten percent of the president's time is devoted to the unrelated business activity. On Form 990-T, the organization enters \$6,500 (10% of \$65,000) on Schedule K for the part of the president's salary allocable to the unrelated trade or business activity. However, the remaining \$58,500 (90% of \$65,000) cannot be deducted on Form 990-T because it is not directly attributable to the organization's unrelated trade or business activities.

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

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

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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

| | |
|---|-----------------|
| Recordkeeping | 66 hr., 28 min. |
| Learning about the law or the form | 25 hr., 41 min. |
| Preparing the form | 41 hr., 51 min. |
| Copying, assembling, and sending the form to the IRS | 4 hr., 1 min. |

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the Form 990-T to this address. Instead, see **Where To File** on page 3.

Codes for Unrelated Business Activity

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

| | | |
|---|--|---|
| <p>AGRICULTURE, FORESTRY, HUNTING, AND FISHING</p> <p>Code 110000 Agricultural, forestry, hunting, and fishing 111000 Crop production</p> | <p>485000 Transit and ground passenger transportation 485510 Charter bus industry 487000 Scenic and sightseeing transportation 493000 Warehousing and storage</p> | <p>561450 Credit bureaus 561499 All other business support services 561500 Travel arrangement and reservation services 561520 Tour operators 561700 Services to buildings and dwellings 562000 Waste management and remediation services</p> |
| <p>MINING</p> <p>Code 211110 Oil and gas extraction 212000 Mining (except oil and gas)</p> | <p style="text-align: center;">INFORMATION</p> <p>Code 511110 Newspaper publishers 511120 Periodical publishers 511130 Book publishers 511190 Other publishers 512000 Motion picture and sound recording industries 513100 Radio and television broadcasting 513300 Telecommunications 514000 Information services and data processing services</p> | <p style="text-align: center;">EDUCATIONAL SERVICES</p> <p>Code 611110 Elementary and secondary schools 611310 Colleges, universities, and professional schools 611510 Technical and trade schools 611600 Other schools and instruction</p> |
| <p>UTILITIES</p> <p>Code 221000 Utilities</p> | <p style="text-align: center;">FINANCE AND INSURANCE</p> <p>Code 522110 Commercial banking 522120 Savings institutions 522130 Credit unions 522190 Other depository credit intermediation 522210 Credit card issuing 522290 Other non-depository credit intermediation 523100 Securities, commodity contracts, and other intermediation and brokerage 524113 Direct life insurance carriers 524114 Direct health and medical insurance carriers 524121 Property and casualty insurance carriers 524126 Direct property and casualty insurance carriers 524130 Reinsurance carriers 524292 Third party administration for insurance and pension funds 524298 All other insurance related activities 525100 Insurance and employee benefit funds 525920 Trusts, estates, and agency accounts 525990 Other financial vehicles</p> | <p style="text-align: center;">HEALTHCARE AND SOCIAL ASSISTANCE</p> <p>Code 621000 Ambulatory health care services 621110 Offices of physicians 621210 Offices of dentists 621300 Offices of other health practitioners 621400 Outpatient care centers 621410 Family planning centers 621500 Medical and diagnostic laboratories 621610 Home health care services 621910 Ambulance services 621990 All other ambulatory health care services 621991 Blood and organ banks 622000 Hospitals 623000 Nursing and residential care facilities 623990 Other residential care facilities 624000 Social assistance 624100 Individual and family services 624200 Community food and housing, and emergency and other relief services 624310 Vocational rehabilitation services 624410 Child day care services</p> |
| <p>CONSTRUCTION</p> <p>Code 230000 Construction 233000 Building, developing, and general contracting</p> | <p style="text-align: center;">REAL ESTATE AND RENTAL AND LEASING</p> <p>Code 531110 Lessors of residential buildings and dwellings 531120 Lessors of nonresidential buildings, except miniwarehouses 531190 Lessors of other real estate property 531210 Offices of real estate agents and brokers 531310 Real estate property managers 531390 Other activities related to real estate 532000 Rental and leasing services 532291 Home health equipment rental 532420 Office machinery and equipment rental and leasing 533110 Lessors of nonfinancial intangible assets (except copyrighted works)</p> | <p style="text-align: center;">ARTS, ENTERTAINMENT, AND RECREATION</p> <p>Code 711110 Theater companies and dinner theaters 711120 Dance companies 711130 Musical groups and artists 711190 Other performing arts companies 711210 Spectator sports (including sports clubs and racetracks) 711300 Promoters of performing arts, sports, and similar events 712100 Museums, historical sites, and similar institutions 713110 Amusement and theme parks 713200 Gambling industries 713900 Other amusement and recreation industries (including golf courses, skiing facilities, marinas, fitness centers, and bowling centers)</p> |
| <p>MANUFACTURING</p> <p>Code 311000 Food manufacturing 312100 Beverage manufacturing 312200 Tobacco manufacturing 313000 Textile mills 315000 Apparel manufacturing 316000 Leather and allied product manufacturing 321000 Wood product manufacturing, except furniture 322000 Paper manufacturing 323100 Printing and related support activities 323117 Book printing 323119 Other commercial printing 324110 Petroleum refineries 325000 Chemical manufacturing 325200 Resin, synthetic rubber, artificial and synthetic fiber and filament manufacturing 327000 Nonmetallic mineral product manufacturing 331000 Primary metal manufacturing 332000 Fabricated metal product manufacturing 333000 Machinery manufacturing 334000 Computer and electronic product manufacturing 335000 Electrical equipment, appliance, and component manufacturing 336000 Transportation equipment manufacturing 337000 Furniture and related product manufacturing 339000 Miscellaneous manufacturing 339110 Medical equipment and supplies manufacturing</p> | <p style="text-align: center;">PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES</p> <p>Code 541100 Legal services 541200 Accounting, tax preparation, bookkeeping, and payroll services 541300 Architectural, engineering, and related services 541380 Testing laboratories 541500 Computer systems design and related services 541511 Custom computer programming services 541610 Management consulting services 541700 Scientific research and development services 541800 Advertising and related services 541860 Direct mail advertising 541900 Other professional, scientific, and technical services</p> | <p style="text-align: center;">ACCOMMODATION AND FOOD SERVICES</p> <p>Code 721000 Accommodation 721110 Hotels (except casino hotels) and motels 721210 RV (recreational vehicle) parks and recreational camps 721310 Rooming and boarding houses 722100 Full-service restaurants 722210 Limited-service eating places 722320 Caterers 722410 Drinking places (alcoholic beverages)</p> |
| <p>WHOLESALE TRADE</p> <p>Code 421000 Wholesale trade, durable goods 422000 Wholesale trade, nondurable goods</p> | <p style="text-align: center;">MANAGEMENT OF COMPANIES AND ENTERPRISES</p> <p>Code 551111 Offices of bank holding companies 551112 Offices of other holding companies</p> | <p style="text-align: center;">OTHER SERVICES</p> <p>Code 811000 Repair and maintenance 812300 Drycleaning and laundry services 812900 Other personal services 812930 Parking lots and garages</p> |
| <p>RETAIL TRADE</p> <p>Code 441100 Automobile dealers 442000 Furniture and home furnishings stores 443120 Computer and software stores 444100 Building materials and supplies dealers 445100 Grocery stores 445110 Supermarkets and other grocery stores 445200 Specialty food stores 445291 Baked goods stores 446110 Pharmacies and drug stores 446130 Optical goods stores 447100 Gasoline stations 448000 Clothing and clothing accessories stores 451110 Sporting goods stores 451211 Book stores 451212 News dealers and newsstands 452000 General merchandise stores 453000 Miscellaneous store retailers 453100 Florists 453220 Gift, novelty, and souvenir stores 453310 Used merchandise stores 454110 Electronic shopping and mail-order houses</p> | <p style="text-align: center;">ADMINISTRATIVE AND SUPPORT AND WASTE MANAGEMENT AND REMEDIATION SERVICES</p> <p>Code 561000 Administrative and support services 561300 Employment services 561439 Other business service centers (including copy shops)</p> | <p style="text-align: center;">OTHER</p> <p>Code 900000 Unrelated debt-financed activities other than rental of real estate 900001 Investment activities by section 501(c)(7), (9), or (17) organizations 900002 Rental of personal property 900003 Passive income activities with controlled organizations 900004 Exploited exempt activities</p> |
| <p>TRANSPORTATION AND WAREHOUSING</p> <p>Code 481000 Air transportation 482110 Rail transportation 483000 Water transportation 484000 Truck transportation</p> | | |