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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-217690

MARCH 29, 1985

The Honorable Daniel Rostenkowski
Chairman, Committee on Ways
and Means
House of Representatives

Dear Mr. Chairman:

Subject: Statistical Data on Tax-Exempt Organizations
Earning Unrelated Business Income (GAO/GGD-85-43)

This report responds to the interest expressed by representatives of the Subcommittee on Oversight, House Committee on Ways and Means, for information on tax-exempt organizations earning unrelated business income (UBI). Given your Committee's interest in the UBI issue, they suggested we provide this data concurrently to you.

Certain organizations are granted tax exemption because they engage in socially desirable activities. If, however, these organizations generate income not substantially related to their tax-exempt activities, a tax is generally imposed on that income. This income is commonly referred to as UBI.

The data presented in this report was developed for fiscal years 1982 and 1983 and primarily focuses on UBI tax returns filed by tax-exempt organizations and UBI tax examinations performed nationwide by IRS. Enclosure I contains a listing of the categories of tax-exempt organizations which are subject to the UBI tax under section 501(c) of the Internal Revenue Code. Enclosures II through IX present statistical data on the extent of UBI tax return filing activity and IRS examination coverage and on the results of IRS' UBI tax return examinations.

We obtained the data used in this report from IRS' Audit Information Management System for fiscal years 1982 and 1983 and from IRS' Exempt Organizations' Business Master File. We did not test the validity of this data. We did, however, provide the enclosures to IRS officials for their review and comment. These officials agreed with the data presented.

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As agreed with the requestors, we will make the report available to IRS and other interested parties at the same time you receive the report. We hope you will find this information useful in carrying out your oversight responsibilities in the tax-exempt area. If you have questions or desire further explanation of this data, please contact Johnny C. Finch, Senior Associate Director, on 275-6407.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosures

CATEGORIES OF TAX-EXEMPT ORGANIZATIONS SUBJECT TO THE
UBI TAX UNDER SECTION 501(c) OF THE INTERNAL REVENUE CODE

<u>Section</u> <u>501(c)</u>	<u>Category of Organization</u>
(1)	Corporations organized under an act of Congress
(2)	Titleholding corporations for exempt organizations
(3)	Religious, charitable, educational, etc. organizations ^a
(4)	Civil leagues, social welfare organizations, and local associations of employees
(5)	Labor, agricultural, and horticultural organizations
(6)	Business leagues and chambers of commerce
(7)	Social and recreational clubs
(8)	Fraternal beneficiary societies
(9)	Voluntary employee's beneficiary associations
(10)	Domestic fraternal societies
(11)	Teachers' retirement fund associations
(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual telephone companies, etc.
(13)	Cemetery companies
(14)	Credit unions
(15)	Mutual insurance companies
(16)	Corporations to finance crop operations
(17)	Supplemental unemployment benefit trusts
(18)	Employee funded pension trusts
(19)	Veterans organizations
(20)	Prepaid legal service funds
(21)	Black lung benefit trusts
(22)	Employer liability trusts
(23)	Veterans insurance associations ^b

^aThe section 501(c)(3) category encompasses private foundations and organizations organized for religious, charitable, educational, literary, scientific, and other purposes.

^bThis category was added after our study was done.

OVERVIEW OF THE EXTENT OF

UBI ACTIVITY BY SECTION 501(c)

ORGANIZATION CATEGORY

FISCAL YEAR 1983

Categories of tax-exempt organizations ^a	Number of entities by category ^b	Entities in each organization category as a percent of total entities	Total number of entities in each organization category required to file a UBI tax return ^e	Percent of total entities required to file a UBI tax return	Percent of entities in each category required to file a UBI tax return
501(c)(1)	44	(d)	2	(d)	4.5
(c)(2)	5,377	.7	381	1.7	7.1
(c)(3)	312,416 ^c	41.6	8,113	35.3	2.6
(c)(4)	121,584	16.2	2,609	11.3	2.1
(c)(5)	74,411	9.9	1,686	7.3	2.3
(c)(6)	49,045	6.5	2,605	11.3	5.3
(c)(7)	50,145	6.7	4,078	17.7	8.1
(c)(8)	75,029	10.0	1,443	6.3	1.9
(c)(9)	8,934	1.2	226	1.0	2.5
(c)(10)	15,023	2.0	274	1.2	1.8
(c)(11)	10	(d)	-0-	-0-	-0-
(c)(12)	5,002	.7	269	1.2	5.4
(c)(13)	6,326	.8	130	.6	2.1
(c)(14)	5,509	.7	92	.4	1.7
(c)(15)	986	.1	23	.1	2.3
(c)(16)	22	(d)	-0-	-0-	-0-
(c)(17)	751	.1	5	(d)	.7
(c)(18)	3	(d)	-0-	-0-	-0-
(c)(19)	21,076	2.8	1,063	4.6	5.0
(c)(20)	113	(d)	1	(d)	.9
(c)(21)	12	(d)	-0-	-0-	-0-
(c)(22)	-0-	-0-	-0-	-0-	-0-
(c)(23)	-0-	-0-	-0-	-0-	-0-
Total	751,818	100.0	23,000	100.0	3.1
	=====	=====	=====	=====	=====

^aOther tax-exempt organizations, such as farmer cooperatives, are categorized in Internal Revenue Code sections other than 501(c) and are generally not subject to UBI tax.

^bNumber of entities by tax-exempt category approved for tax-exempt status listed on IRS' Exempt Organizations' Master File as of September 30, 1983.

^cThis figure is probably conservative. Churches, for example, do not have to apply for formal tax-exempt status, and in other cases, approval may be granted to a central organization which may have many subordinate units approved under its umbrella.

^dRepresents less than a tenth of 1 percent.

^eNumber of entities required to file a UBI tax return listed on IRS' Exempt Organizations' Master File as of November 1983.

OVERVIEW OF UBI TAX EXAMINATIONRATE BY ORGANIZATION CATEGORY

<u>Categories of tax-exempt organizations</u>	<u>Number of organizations required to file a UBI tax return as of November 1983</u>	<u>Total number of organizations examined^a</u>		<u>Percent of total organizations examined</u>		<u>Percent of each organization category examined</u>	
		<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1982</u>	<u>FY 1983</u>
		501(c)(2)	381	39	23	1.8	1.1
501(c)(3)	8,113	538	460	24.6	21.6	6.6	5.7
501(c)(4)	2,609	205	148	9.4	7.0	7.9	5.7
501(c)(5)	1,686	161	175	7.4	8.2	9.5	10.4
501(c)(6)	2,605	379	416	17.3	19.6	14.5	16.0
501(c)(7)	4,078	559	639	25.6	30.0	13.7	15.7
501(c)(8)	1,443	147	162	6.7	7.6	10.2	11.2
501(c)(1),(c)(9)-(23)	<u>2,085</u>	<u>158</u>	<u>104</u>	<u>7.2</u>	<u>4.9</u>	7.6	5.0
Total	23,000 =====	2,186 =====	2,127 =====	100.0 =====	100.0 =====	9.5	9.2

^aFor purposes of this presentation, an organization was counted only once regardless of how many of an organization's returns were examined. Enclosure IV presents examination rates in terms of the number of returns examined.

NUMBER OF UBI TAX RETURNSEXAMINED FORFISCAL YEAR 1982 AND 1983

<u>Categories of tax- exempt organizations</u>	<u>Total number of returns examined^a</u>		<u>Percent of total returns examined</u>	
	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1982</u>	<u>FY 1983</u>
	501(c)(2)	49	32	1.6
501(c)(3)	734	642	23.6	22.0
501(c)(4)	348	211	11.2	7.2
501(c)(5)	212	210	6.8	7.2
501(c)(6)	506	554	16.3	19.0
501(c)(7)	824	910	26.5	31.2
501(c)(8)	197	209	6.3	7.2
501(c)(1),(c)(9)-(23)	199	145	6.4	5.0
Not Identifiable ^b	<u>36</u>	<u>-0-</u>	<u>1.2</u>	<u>-0-</u>
Total	3,105	2,913	99.9 ^c	99.9 ^c
	=====	=====	=====	=====

^aThe number of returns examined exceeds the number of organizations examined as reported in enclosure III because more than one return was examined for some organizations.

^bThese represent examined returns for which we were unable to ascertain the organization category.

^cFigure does not add to 100 percent due to rounding.

SCHEDULE OF ADDITIONAL TAX AND
PENALTY RECOMMENDED UPON EXAMINATION
FOR UNRELATED BUSINESS INCOME
FOR FISCAL YEAR 1982 AND 1983

Categories of tax-exempt organizations	FY 1982				FY 1983			
	Additional tax and penalty recommended	Tax refund ^a	Net Tax recommended	Percent of total net tax recommended	Additional tax and penalty recommended	Tax refund ^a	Net tax recommended	Percent of total tax recommended
501(c)(2)	\$ 62,917	323,699	\$ <260,782>	<1.8>	286,947	2,115	\$ 284,832	2.8
501(c)(3) private foundation	195,657	56,859	138,798	1.0	23,126	14,385	8,741	.1
501(c)(3) other organization	8,620,383	120,013	8,500,370	60.1	2,896,449	61,438	2,835,011	27.3
501(c)(4)	1,961,147	153,851	1,807,296	12.8	1,071,135	19,318	1,051,817	10.1
501(c)(5)	567,751	73,073	494,678	3.5	20,993	20,656	337	(b)
501(c)(6)	1,926,994	29,752	1,897,242	13.4	2,541,307	73,253	2,468,054	23.8
501(c)(7)	1,169,130	23,078	1,146,052	8.1	1,498,554	128,935	1,369,619	13.2
501(c)(8)	155,306	25,726	129,580	.9	905,611	29,152	876,459	8.5
501(c)(1),(c)(9)-(23)	<u>345,922</u>	<u>56,226</u>	<u>289,696</u>	<u>2.0</u>	<u>1,489,310</u>	<u>12,778</u>	<u>1,476,532</u>	<u>14.2</u>
Total	\$15,005,207	\$862,277	\$14,142,930	100.0	\$10,733,432	\$362,030	\$10,371,402	100.0
	=====	=====	=====	=====	=====	=====	=====	=====

^aRepresents taxpayer refunds paid.

^bRepresents less than a tenth of 1 percent.

ANALYSIS OF UBI TAX RETURN EXAMINATION
RESULTS BY EXEMPT ORGANIZATION CATEGORY
FOR FISCAL YEAR 1982

Categories of tax-exempt organizations	Returns with a refund or tax and penalty recommended			Returns with no refund or tax and penalty recommended				Total returns examined
	Tax change to a filed return	Tax recommended on a delinquent return ^a	Subtotal	No change to a filed return	Nontax change to a filed return ^b	Delinquent return without tax recommended ^c	Subtotal	
501(c)(2)								
number of returns	18	5	23	20	3	3	26	49
percent of 501(c)(2) returns	36.7	10.2	46.9	40.8	6.1	6.1	53.0	100.0
501(c)(3)								
number of returns	209	28	237	200	160	137	497	734
percent of 501(c)(3) returns	28.5	3.8	32.2	27.2	21.8	18.7	67.7	100.0
501(c)(4)								
number of returns	110	69	179	60	43	66	169	348
percent of 501(c)(4) returns	31.6	19.8	51.4	17.2	12.4	19.0	48.6	100.0
501(c)(5)								
number of returns	71	4	75	63	47	27	137	212
percent of 501(c)(5) returns	33.5	1.9	35.4	29.7	22.2	12.7	64.6	100.0
501(c)(6)								
number of returns	144	33	177	117	117	95	329	506
percent of 501(c)(6) returns	28.5	6.5	35.0	23.1	23.1	18.8	65.0	100.0
501(c)(7)								
number of returns	371	68	439	149	158	78	385	824
percent of 501(c)(7) returns	45.0	8.3	53.3	18.1	19.2	9.5	46.7	100.0
501(c)(8)								
number of returns	65	18	83	21	50	43	114	197
percent of 501(c)(8) returns	33.0	9.1	42.1	10.7	25.4	21.8	57.9	100.0

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Categories of tax-exempt organizations	Returns with a refund or tax and penalty recommended			Returns with no refund or tax and penalty recommended			Total returns examined
	Tax change to a filed return	Tax recommended on a delinquent return ^a	Subtotal	No change to a filed return	Nontax change to a filed return ^b	Delinquent return without tax recommended ^c	
501(c)(1),(c)(9)-(23)							
number of returns	71	23	94	41	23	41	199
percent of 501 (c)(1) (c)(9)-(23) returns	35.7	11.5	47.2	20.6	11.6	20.6	100.0
Unidentified ^d							
number of returns	36		36				36
percent of unidentified returns	100.0		100.0				100.0
Total							
number of returns	1095	248	1343	671	601	490	3105
percent of all returns	35.3	8.0	43.3	21.6	19.3	15.8	100.0
	=====	=====	=====	=====	=====	=====	=====

^aThese delinquent returns represent organizations which IRS found during examination that were required to file a UBI tax return but had not. These returns involved a recommended tax assessment.

^bThese returns reported the correct tax liability, but a regulatory noncompliance condition was found. This could include filing under an incorrect tax-exempt organization category or filing an incomplete return.

^cThese returns represent organizations which IRS found during examination that were required to file a UBI tax return but had not. These returns did not involve a recommended tax assessment.

^dWe could not ascertain the organization category for these examined returns.

ANALYSIS OF UBE TAX RETURN EXAMINATION
RESULTS BY EXEMPT ORGANIZATION CATEGORY
FISCAL YEAR 1983

Categories of tax-exempt organizations	Returns with a refund or tax and penalty recommended			Returns with no refund or tax and penalty recommended			Total returns examined
	Tax change to a filed return	Tax recommended on a delinquent return ^A	Subtotal	No change to a filed return	Non-tax change to a filed return ^B	Delinquent return without tax recommended ^C	
501(c)(2)							
number of returns	6	1	9	7	14	2	23
percent of 501(c)(2) returns	18.7	9.4	28.1	21.9	43.7	6.3	71.9
501(c)(3)							
number of returns	173	30	203	160	154	125	439
percent of 501(c)(3) returns	26.9	4.7	31.6	24.9	24.0	19.5	68.4
501(c)(4)							
number of returns	70	32	102	24	36	49	109
percent of 501(c)(4) returns	11.2	15.1	48.1	11.4	17.1	23.2	51.7
501(c)(5)							
number of returns	25	8	33	54	88	15	177
percent of 501(c)(5) returns	11.9	3.8	15.7	25.7	41.9	16.7	84.1
501(c)(6)							
number of returns	143	41	184	78	174	118	370
percent of 501(c)(6) returns	25.8	7.4	33.2	14.1	31.4	21.3	66.8
501(c)(7)							
number of returns	401	125	526	130	142	112	384
percent of 501(c)(7) returns	44.1	13.7	57.8	14.3	15.6	12.3	42.2
501(c)(8)							
number of returns	51	14	67	33	71	38	142
percent of 501(c)(8) returns	24.4	7.7	32.1	15.8	34.0	18.2	67.9

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Categories of tax-exempt organizations	Returns with a refund or tax and penalty recommended			Returns with no refund or tax and penalty recommended			Total returns examined
	Tax change to a filed return	Tax recommended on a delinquent return ^a	Subtotal	No change to a filed return	Nontax change to a filed return ^b	Delinquent return without tax recommended ^c	
501(c)(1),(c)(9)-(23) number of returns	52	13	65	26	33	21	145
percent of 501(c)(1), (c)(9)-(23) return	<u>35.8</u>	<u>9.0</u>	<u>44.8</u>	<u>17.9</u>	<u>22.8</u>	<u>14.5</u>	<u>100.0</u>
Total							
number of returns	921	268	1189	512	712	500	2913
percent of all returns	<u>31.6</u>	<u>9.2</u>	<u>40.8</u>	<u>17.6</u>	<u>24.4</u>	<u>17.2</u>	<u>100.0</u>
	=====	=====	=====	=====	=====	=====	=====

^aThese delinquent returns represent organizations which IRS found during examination that were required to file a UBI tax return but had not. These returns involved a recommended tax assessment.

^bThese returns reported the correct tax liability, but a regulatory noncompliance condition was found. This could include filing under an incorrect tax-exempt organization category or filing an incomplete return.

^cThese returns represent organizations which IRS found during examination that were required to file a UBI tax return but had not. These returns did not involve a recommended tax assessment.

^dWe could not ascertain the organization category for these examined returns.

ANALYSIS OF UBI TAX RETURN EXAMINATIONS
WITH REFUND AND ADDITIONAL TAX AND PENALTY RECOMMENDED
BY DOLLAR RANGE FOR FISCAL YEAR 1982

Categories of tax-exempt organizations	Refund	Range of additional tax and penalty recommended										Total returns with tax recommended and refunds	
		\$1 - \$99	\$100 - \$249	\$250 - \$499	\$500 - \$999	\$1,000 - \$2,499	\$2,500 - \$4,999	\$5,000 - \$7,499	\$7,500 - \$9,999	\$10,000 - \$50,000	\$50,000 and above		
501(c)(2)													
number of returns	8	2	-	3	2	-	3	2	2	1	-	23	
percent of 501(c)(2) returns	34.8	8.7		13.0	8.7		13.0	8.7	8.7	4.4		100.0	
501(c)(3)													
number of returns	54	24	12	14	19	29	28	16	8	16	17	237	
percent of 501(c)(3) returns	22.8	10.1	5.1	5.9	8.0	12.2	11.8	6.7	3.4	6.7	7.2	99.9	
501(c)(4)													
number of returns	30	12	12	19	27	34	22	12	2	3	6	179	
percent of 501(c)(4) returns	16.8	6.7	6.7	10.6	15.1	19.0	12.3	6.7	1.1	1.7	3.3	100.0	
501(c)(5)													
number of returns	33	6	3	7	10	5	3	2	2	-	4	75	
percent of 501(c)(5) returns	44.0	8.0	4.0	9.3	13.3	6.7	4.0	2.7	2.7		5.3	100.0	
501(c)(6)													
number of returns	25	22	19	22	22	31	8	4	6	14	4	177	
percent of 501(c)(6) returns	14.1	12.4	10.7	12.4	12.4	17.5	4.5	2.3	3.4	7.9	2.3	99.9	
501(c)(7)													
number of returns	30	65	50	64	58	86	43	16	13	9	5	439	
percent of 501(c)(7) returns	6.8	14.8	11.4	14.6	13.2	19.6	9.8	3.6	3.0	2.1	1.1	100.0	
501(c)(8)													
number of returns	30	10	11	3	10	10	4	-	-	5	-	83	
percent of 501(c)(8) returns	36.1	12.0	13.3	3.6	12.1	12.1	4.8			6.0		100.00	
501(c)(1),(c)(9)-(23)													
number of returns	37	10	2	4	12	13	7	1	1	5	2	94	
percent of 501(c)(1), (c)(9)-(23) returns	39.4	10.6	2.1	4.3	12.8	13.8	7.4	1.1	1.1	5.3	2.1	100.0	

Categories of tax-exempt organizations	Refund	Range of additional tax and penalty recommended										Total return with tax recommended and refunds
		\$1 - \$99	\$100 - \$249	\$250 - 499	\$500 - 999	\$1,000 - \$2,499	\$2,500 - \$4,999	\$5,000 - \$7,499	\$7,500 - \$9,999	\$10,000 - \$50,000	\$50,000 and above	
Unidentified ^a number of returns	23	1	1	2	5	3	-	1	-	-	-	36
percent of unidentified returns	63.9	2.8	2.8	5.5	13.9	8.3	-	2.8	-	-	-	100.0
Total number of returns	270	152	110	138	160	121	53	35	51	38	1343	
percent of all returns	20.1	11.3	8.2	10.3	11.9	9.0	3.9	2.6	3.9	2.8	99.9	

^a We could not ascertain the organization category for these examined returns.

ANALYSIS OF UBI TAX RETURN EXAMINATIONS
WITH REFUND AND ADDITIONAL TAX AND PENALTY RECOMMENDED
BY DOLLAR RANGE FOR FISCAL YEAR 1983

Categories of tax-exempt organizations	Range of additional tax and penalty recommended										Total returns with tax recommended and refunds	
	Refund	\$1 - \$99	\$100 - \$249	\$250 - 499	\$500 - 999	\$1,000 - \$2,499	\$2,500 - \$4,999	\$5,000 - \$7,499	\$7,500 - \$9,999	\$10,000 - \$50,000		\$50,000 and above
501(c)(2)												
number of returns	3	-	3	-	-	1	1	-	-	-	1	9
percent of 501(c)(2) returns	33.3		33.3			11.1	11.1				11.1	99.9
501(c)(3)												
number of returns	48	38	7	11	13	33	21	5	6	19	2	209
percent of 501(c)(3) returns	23.6	18.7	3.4	5.4	6.4	16.3	10.3	2.5	3.0	9.4	1.0	100.0
501(c)(4)												
number of returns	15	16	12	11	11	19	7	3	2	3	3	102
percent of 501(c)(4) returns	14.7	15.7	11.8	10.8	10.8	18.6	6.9	2.9	2.0	2.9	2.9	100.0
501(c)(5)												
number of returns	11	4	7	5	1	2	2	1	-	-	-	33
percent of 501(c)(5) returns	13.3	12.1	21.2	15.2	3.0	6.1	6.1	3.0				100.0
501(c)(6)												
number of returns	7	22	7	22	19	35	18	5	2	9	8	184
percent of 501(c)(6) returns	20.1	12.0	3.8	12.0	10.3	19.0	9.8	2.7	1.1	4.9	4.3	100.0
501(c)(7)												
number of returns	24	58	58	62	79	105	62	32	14	31	1	526
percent of 501(c)(7) returns	4.6	11.0	11.0	11.8	15.0	19.8	11.8	6.1	2.7	5.9	.2	99.9
501(c)(8)												
number of returns	21	5	3	4	8	10	6	1	2	4	3	67
percent of 501(c)(8) returns	31.3	7.5	4.5	6.0	11.9	14.9	8.9	1.5	3.0	6.0	4.5	100.0
501(c)(1),(c)(9)-(c)(23)												
number of returns	22	12	2	6	7	10	1	3	-	-	2	65
percent of 501(c)(1)(c)(9)-(23) returns	33.8	18.5	3.1	9.2	10.8	15.4	1.5	4.6			3.1	100.0
Total												
number of returns	181	155	99	121	138	215	118	50	26	66	20	1189
percent of all returns	15.2	13.0	8.3	10.2	11.6	18.1	9.9	4.2	2.2	5.6	1.7	100.0