



# Instructions for Form 990-T

## Exempt Organization Business Income Tax Return (and Proxy Tax Under Section 6033(e))

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

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### Future Developments

The IRS has created a page on IRS.gov for information about Form 990-T and its instructions, at [IRS.gov/Form990T](https://www.irs.gov/Form990T). Information about any future developments affecting Form 990-T (such as legislation enacted after we release it) will be posted on that page.

### What's New

**Form 8975.** Certain United States persons that are the ultimate parent entity of a United States multinational enterprise group with annual revenue for the preceding reporting period of \$850 million or more are required to file Form 8975. Form 8975 and its Schedules A (Form 8975) must be filed with the income tax return of the ultimate parent entity of a U.S. multinational enterprise group for the tax year in or within which the reporting period covered by Form 8975 ends. The first required reporting period for an ultimate parent entity is the 12-month reporting period that begins on or after the first day of a tax year of the ultimate parent entity that begins on or after June 30, 2016. For more information, see Form 8975, Schedule A (Form 8975), and the Instructions for Form 8975 and Schedule A (Form 8975).

#### Increase in penalty for failure to file..

For tax years beginning in 2017, the minimum penalty for failure to file a return that is over 60 days late has increased to the smaller of the tax due or \$210. See *Late filing of return*, later.

#### Alternative tax for organizations with qualified timber gains..

For tax years that began in 2016, if a corporation had both net capital gain and qualified timber gain (as defined in section 1201(b)(2)), an alternative tax may have applied. This alternative tax is not applicable for tax years beginning in 2017.

**Principal Business Activity Codes.** The Principal Business Activity Codes, located at the end of these instructions, have been updated and revised to reflect updates to the North American Industry Classification System (NAICS).

For tax years beginning after 2017, the following changes apply.

**Section 179D deductions.** The deduction under section 179D for the cost of energy efficient commercial building property has terminated and is not allowable for property placed in service after December 31, 2016, unless extended by legislation.

**America Samoa economic development credit.** The American Samoa economic development credit has terminated and shall not apply to taxable years beginning after December 31, 2016.

**Qualified plug-in electric vehicle credit.** The qualified plug-in electric vehicle credit terminated under prior section 30(f) for vehicles acquired after 2011. Regulations section 1.30-1(b)(2) requires recapture for events within 3 full years of being placed in service.

**Employee retention credit.** An employee retention credit is available to employer organizations affected by Hurricane Harvey. The credit is equal to 40 percent of the qualified wages with respect to each eligible employee of such employer whose active trade or business became inoperable after August 23, 2017, and before January 1, 2018, as a result of damage sustained by reason of Hurricane Harvey. Qualified wages which may be taken into account with respect to any individual shall not exceed \$6,000. See section 38.

**Temporary suspension of limitations on charitable contributions.** Any organization's qualified cash contribution to a section 170(b)(1)(A) charitable organizations made beginning August 23, 2017 and before January 1, 2018, shall be allowed only to the extent that the total of such contribution(s) doesn't exceed the excess of the taxpayer's taxable income, over the amount of all other charitable contributions allowed by section 170(b)(2), and is made for relief efforts in the Hurricane Harvey, Irma or Maria disaster area(s). Charitable contributions over the 10% limitation can't be deducted for the tax year, but may be carried over to the next 5 tax years.

### Reminder

**Don't include social security numbers on publicly disclosed forms.** Because the IRS is required to publicly disclose a

501(c)(3) organization's Form 990-T returns, social security numbers should not be included on this form. Documents subject to disclosure include schedules and attachments filed with the form. See *Public Inspection Requirements of Section 501(c)(3) Organizations*, later.

## General Instructions

### Purpose of Form

Use Form 990-T 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;
- Request a credit for certain federal excise taxes paid or for small employer health insurance premiums paid; and
- Report unrelated business income tax on reinsurance entities.

### Who Must File

The following entities must file Form 990-T.

- Any domestic or foreign organization exempt under section 501(a) or section 529(a) if it has gross income of \$1,000 or more from a regularly conducted unrelated trade or business (see Regulations section 1.6012-2(e)). Gross income is gross receipts minus the cost of goods sold (see Regulations section 1.61-3). For a discussion of cost of goods sold see *Schedule A. Cost of Goods Sold*, later.



*The gross receipts from a gaming business include all amounts wagered in games, not just the net proceeds after payment of prizes and other expenses. Cash prizes aren't included in cost of goods sold but are reported on line 28 as other deductions.*



*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. See *Line 37. Proxy Tax*, later, for a discussion of the proxy tax. If your organization is only required to file because of the proxy tax, see *Proxy Tax Only* under *Which Parts To Complete*, later.
- Colleges and universities of states and other governmental units, and subsidiary corporations wholly owned by such colleges and universities. However, a section 501(c)(1) corporation that is an

instrumentality of the United States and both organized and exempt from tax by an Act of Congress doesn't have to file.

- Applicable reinsurance entities under the Affordable Care Act of 2010 (ACA), section 1341(c)(1), must write "Applicable Reinsurance Entity" across the top of Form 990-T.
- Organizations that are liable for other taxes (such as the section 1291 tax (Form 990-T, line 35c or 36) or recapture taxes (Form 990-T, line 43)). See a discussion of these items, later. If your organization is only required to file Form 990-T because of these taxes, see *Other Taxes* under *Which Parts To Complete*, later.
- Qualified tuition programs described under section 529 that have \$1,000 or more of unrelated trade or business gross income.
- Trustees for the following trusts that have \$1,000 or more of unrelated trade or business gross income:
  1. Individual retirement accounts (IRAs), including traditional IRAs described under section 408(a),
  2. Simplified employee pension IRAs (SEP IRAs) described under section 408(k),
  3. Savings incentive match plan for employees of small employers IRAs (SIMPLE IRAs) described under section 408(p),
  4. Roth IRAs described under section 408A,
  5. Coverdell education savings accounts (ESAs) described under section 530(b),
  6. Archer medical savings accounts (Archer MSAs) described under section 220(d), and
  7. Health savings accounts (HSAs) described under section 223(d).



*Each account of a type listed above is treated as a separate trust for unrelated business income tax purposes (even if there is a single owner or beneficiary for multiple accounts). A custodian is treated as a trustee. See section 408(h). Individual retirement annuities, unlike individual retirement accounts, aren't subject to unrelated business income tax.*



*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**, later.*

### Definitions

#### Section 501(c)(3) organization.

Section 501(c)(3) describes certain organizations which are exempt from taxation under section 501(a). A 501(c)(3) organization is an organization organized and operated exclusively for charitable

purposes. See Regulations section 1.501(c)(3)-1(a).

**Annual return.** An annual return (for purposes of the public inspection rules discussed below) is an exact copy of the Form 990-T that was filed with the IRS, including all schedules and attachments. It also includes any amendments to the original return (amended return).

By annual return (for purposes of the public inspection rules discussed below), we mean any annual return (defined above) that isn't more than 3 years old from the later of:

- The date the return is required to be filed (including extensions), or
- The date that the return is actually filed.

**Applicable reinsurance entity.** An applicable reinsurance entity is a not-for-profit organization:

- The purpose of which is to help stabilize premiums for coverage in the individual and small group markets in a state during the first 3 years of operation of the state's American Health Benefit Exchange for such markets within the state when the risk of adverse selection related to new rating rules and market changes is greatest, and
- The duties of which are to conduct the reinsurance program under ACA section 1341 by coordinating the funding and operation of the risk-spreading mechanisms designed to implement the reinsurance program of the Act.

**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 sections, and must be directly connected with the conduct of an unrelated trade or business activity.

To be directly connected with the conduct of an unrelated 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 conduct 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.

**Not substantially related to.** Not substantially related to means the activity that produces the income doesn't 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.

**Trade or business.** A trade or business is any activity conducted for the production of income from selling goods or performing services. An activity must be conducted with intent to profit to constitute a trade or business. An activity doesn't lose its identity as a trade or business merely because it is conducted 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 conducted for profit is an unrelated trade or business, no part of it can be excluded from this classification merely because it doesn't result in profit.

**Unrelated trade or business income.** Unrelated trade or business income is the gross income derived from any trade or business (defined above) regularly carried on and not substantially related to (defined above) 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)).

For a section 511(a)(2)(B) state college or university, or a corporation wholly owned by such a 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 doesn't include a trade or business:

1. In which substantially all the work is performed for the organization without compensation; or
2. That is conducted 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 conducted 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 \$10.70 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 isn't included in any unrelated trade or business if:

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

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

c. The game doesn't 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 doesn't 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).

## When To File

An employees' trust defined in section 401(a), an IRA (including SEPs and SIMPLEs), a Roth IRA, a Coverdell ESA, or an Archer MSA must file Form 990-T by the 15th day of the 4th month after the end of its tax year. All other organizations must file Form 990-T by the 15th day of the 5th month after the end of their tax years. If the regular due date falls on a Saturday, Sunday, or legal holiday, file no later than the next business day. If the return is filed late, see *Interest and Penalties*, later.

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

**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

**U.S. Mail.** Send Form 990-T and all other required information to:

Department of the Treasury  
Internal Revenue Service Center  
Ogden, UT 84201-0027

**Private Delivery Service.** Organizations can use certain private delivery services (PDSs) designated by the IRS to meet the "timely mailing as timely filing" rule for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the list of PDS.

The PDS can tell you how to get written proof of the mailing date. For the IRS mailing address to use if you're using PDSs, go to [IRS.gov/PDSstreetAddresses](https://www.irs.gov/PDSstreetAddresses) and select the last Submission Processing Center address for filing Form 990-T using a PDS.

 **Private delivery services can't deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.**

## Estimated Tax Payments

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. Don't include the proxy tax when computing your estimated tax liability for 2017.

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 any tax due in full by the due date of the return without extension.

## Electronic Deposit Requirement

The organization must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically. Generally, electronic fund transfers are made using the Electronic Federal Tax Payment System (EFTPS). For more information about EFTPS or to enroll in EFTPS, visit the EFTPS website at [IRS.gov/EFTPS](https://irs.gov/EFTPS), or call 1-800-555-4477 (TTY/TDD 1-800-733-4829). You can also get Pub. 966, Electronic Federal Tax Payment System: A Guide to Getting Started.

**Depositing on time.** For EFTPS deposits to be made timely, the organization must submit the deposit by 8 p.m. Eastern time the day before the deposit is due.

**Same-day wire payment option.** If you fail to submit a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, you can still make your deposit on time by using the Federal Tax Application (FTA), a same-day federal tax payment system that works in conjunction with EFTPS. Make arrangements with your financial institution ahead of time, noting the institution's availability, deadlines, and costs, if you believe you would ever need the same-day wire payment option. To learn more, visit [ElectronicFederalTaxPaymentSystem](https://www.irs.gov/eftps).

**Timeliness of deposits.** The IRS will use business days to determine the timeliness of deposits. Business days are any day that isn't a Saturday, Sunday, or legal holiday in the District of Columbia.

See Pub. 583, Starting a Business and Keeping Records.



*If the organization owes tax when it files Form 990-T, don't include the payment with the tax return. Instead, use EFTPS.*

## 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 isn't required to include 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 original due date for the return even if the organization uses Form 8868 to request an automatic extension of time to file. Interest is also charged on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, and substantial understatements of tax from the due date (including extension) to the date of payment. The interest charge is figured at the underpayment rate determined under section 6621.

**Late filing of return.** An organization that fails to file its return when due (including extension 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 \$210. If you receive a notice about a penalty after you file this return, reply to the notice with an explanation and we will determine if you meet reasonable-cause criteria. **Don't** include an explanation when you file your return.

**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 can't exceed 25% of the unpaid tax. If you receive a notice about a penalty after you file this return, reply to the notice with an explanation and we will determine if you meet reasonable-cause criteria. **Don't** include an explanation when you file your return.

**Estimated tax penalty.** An organization that doesn't 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 for the tax year is \$500 or more and it didn't make estimated tax payments of at least the smaller of its tax liability for the tax year 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 its amount. Generally, the organization isn't required to file this form because the IRS can figure the amount of any penalty and notify the organization. However, even if the organization doesn't 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, check the box on Form 990-T, line 47, 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 aren't paid to the United States Treasury. These taxes are generally reported on:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's Quarterly Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; or
- Form 945, Annual Return of Withheld Federal Income Tax.

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, reportable transaction understatements, and fraud. See sections 6662, 6662A, 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, later. If you are filing Form 990-T only to claim the credit for small employer health insurance premiums, see the instructions for line 45f, later.*

## Is Gross Income More Than \$10,000?

If the amount in Part I, line 13, column (A), 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, complete the following.

- The heading (above Part I);
- Part I, lines 1–13, column (A);
- Part I, line 13, for columns (B) and (C);
- Part II, lines 29–34;

- Parts III–V; and
- Signature area.

Filers with \$10,000 or less on line 13, column (A) don't 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 complete the following.

- The heading (above Part I) except items E, H, and I;
- Lines 37 and 40;
- Part IV;
- Signature area; and
- Attach a statement 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, the tax on a hospital organization's non-compliant facility income, or other items listed in the instructions for line 43 must complete the following.

- The heading above Part I except items E, H, and I;
- The appropriate lines of Parts III and IV;
- Signature area; and
- 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:

- The heading above Part I except items E, H, and I;
- Enter -0- on line 13, column (A), line 34, and line 44;
- Enter the credit or payment on the appropriate line (45a–45g);
- Lines 46, 49, and 50; and
- Signature area.

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 above under *Claim for Refund*; write "Claim for Refund Shown on Form 2439" at the top of Form 990-T; and attach 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 above under *Claim For Refund* and follow the additional requirements in the notice.

**Backup withholding.** If your only reason for filing Form 990-T is to claim a refund of backup withholding, complete steps above under *Claim for Refund* and attach a copy of the Form 1099 showing the withholding.

### Consolidated Returns

The consolidated return provisions of section 1501 don't 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 IRC, 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.

### Other Forms That May Be Required

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

**Form 720.** File Form 720, Quarterly Federal Excise Tax Return, to report

environmental excise taxes, communications and air transportation taxes, fuel taxes, manufacturer's taxes, ship passenger tax, and certain other excise taxes.



See Trust fund recovery penalty, *earlier*.

**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.** File Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, if the organization is liable for FUTA tax.

**Form 941 and Form 943.** File Form 941, Employer's QUARTERLY Federal Tax Return, or Form 943, Employer's Annual Federal 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*, *earlier*.

**Form 945.** File 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.** File 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.

**Forms 1099-A, B, DIV, INT, LTC, MISC, OID, R, S, and SA.** 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, OID, R, S, and SA;
- Report acquisitions or abandonments of secured property through foreclosure;
- Report proceeds from broker and barter exchange transactions;
- Report certain dividends and distributions;
- Report interest income;
- Report certain payments made on a per diem basis under a long-term care insurance contract, and certain accelerated death benefits;
- Report miscellaneous income (such as payments to providers of health and medical services, miscellaneous income payments, and nonemployee compensation);
- Report original issue discount;
- Report distributions from retirement or profit-sharing plans, IRAs, SEPs, SIMPLEs, insurance contracts;

- Report proceeds from real estate transactions; and
- Report distributions from an HSA, Archer MSA, or Medicare Advantage MSA.



*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.** File 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.** File Form 5498, IRA Contribution Information, to report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, Roth IRA, and to report Roth IRA conversions, IRA recharacterizations, and the fair market value (FMV) of the account.

**Form 5498-ESA.** File Form 5498-ESA, Coverdell ESA Contribution Information, to report contributions (including rollover contributions) to a Coverdell education savings account (ESA).

**Form 5498-SA.** File Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, to report contributions to an HSA or Archer MSA and the fair market value of an HSA, Archer MSA, or Medicare Advantage MSA. See the Instructions for Forms 1099-SA and 5498-SA.

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

**Form 5884-C.** File Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans, to claim the work opportunity credit for qualified first-year wages paid to qualified veterans who will be working for the organization on or after November 22, 2011, and before January 1, 2020.

**Form 6198.** File Form 6198, At-Risk Limitations, if the organization has a loss from an at-risk activity conducted as a trade or business or for the production of income.

**Form 8275 and 8275-R.** Taxpayers and income tax return preparers file 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. See Form 8300 and Regulations section 1.6050I-1(c).

**Form 8582.** File Form 8582, Passive Activity Loss Limitations, for trusts that have losses (including prior year unallowed losses) from passive activities.

**Form 8697.** File 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 8810.** File Form 8810, Corporate Passive Activity Loss and Credit Limitations, for closely held corporations that have losses or credits (including prior year unallowed losses and credits) from passive activities.

**Form 8865.** File Form 8865, Return of U.S. Persons With Respect To Certain Foreign Partnerships, if the organization:

1. Controlled a foreign partnership (that is, 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 organization directly or indirectly owned at least a 10% interest in the foreign partnership; or
  - b. The FMV of the property the organization contributed to the foreign partnership in exchange for a partnership interest, when added to other contributions of property made to the foreign partnership by the organization or a related person 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. See Form 8865 and its separate instructions.

**Form 8886.** File Form 8886, Reportable Transaction Disclosure Statement, to disclose information for each reportable transaction in which the organization participated. Form 8886 must be filed for each tax year that the federal income tax liability of the organization is affected by its participation in the transaction. The organization may have to pay a penalty if it is required to file Form 8886 but doesn't do so. The following are reportable transactions.

- Any listed transaction that is the same as, or substantially similar to tax avoidance transactions identified by the IRS.
- Any transaction offered under conditions of confidentiality for which the organization paid an advisor a fee of at least \$250,000.
- Certain transactions for which the organization has contractual protection against disallowance of the tax benefits.
- Any transaction resulting in a loss of at least \$10 million in any single year or \$20 million in any combination of years.
- Certain transactions identified by the IRS in published guidance as a “transaction of interest” (a transaction that the IRS believes has a potential for tax avoidance or evasion, but hasn't yet been identified as a listed transaction).

**Form 8886-T.** File Form 8886-T, Disclosure by Tax-Exempt Entity Regarding Prohibited Tax Shelter Transaction, to disclose information with respect to each prohibited tax shelter transaction to which the organization is a party.

**Penalties.** The organization may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. The penalty is \$50,000 (\$200,000 if the reportable transaction is a listed transaction) for each failure to file Form 8886 with its return or for failure to provide a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA). Other penalties, such as an accuracy-related penalty under section 6662A, may also apply. See the Instructions for Form 8886 for details.

**Form 8899.** File Form 8899, Notice of Income From Donated Intellectual Property, to report income from qualified intellectual property.

**Form 8903.** File Form 8903, Domestic Production Activities Deduction, to deduct a portion of income from certain qualified domestic production activities.

**Form 8925.** File Form 8925, Report of Employer-Owned Life Insurance



Contracts, which must be filed by every applicable policyholder owning one or more employer-owned life insurance contracts issued after August 17, 2006.

## Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported. Figure taxable income using the method of accounting regularly used in keeping the organization's books and records.

Generally, permissible methods include:

- Cash,
- Accrual, or
- Any other method authorized by the IRC.

In all cases, the method used must clearly show taxable income.

See Pub. 538, Accounting Periods and Methods.

**Change in accounting method.** To change the method of accounting used to report taxable income (for income as a whole or for the treatment of any material item), the organization must file with the IRS either an (a) advanced consent request for a ruling or (b) automatic change request for certain specific changes in accounting method.

In either case, the organization must file Form 3115, Application for Change in Accounting Method. See Pub. 538.

**Section 481(a) adjustment.** The organization may have to make an adjustment under section 481(a) to prevent amounts of income or expense from being duplicated or omitted. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, an organization may elect to use a 1-year adjustment period if the net section 481(a) adjustment for the change is less than \$25,000. The organization must complete the appropriate lines of Form 3115 to make the election.

Include any net positive section 481(a) adjustment on Form 990-T, line 12. If the net section 481(a) adjustment is negative, report it on Form 990-T, line 28.

## 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 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, 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 round off cents to whole dollars on Form 990-T and its schedules. If the organization does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3.

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

## Attachments

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

## Public Inspection Requirements of Section 501(c)(3) Organizations

Under section 6104(d), a section 501(c)(3) organization that files Form 990-T must make its entire annual exempt organization business income tax return (including amended returns) available for public inspection.

The Form 990-T and related schedules must be made available for public inspection for a period of 3 years from the date the Form 990-T is required to be filed, including any extension.

## What Schedules and Attachments to Form 990-T Must Be Made Available for Public Inspection?

Only schedules, attachments (statements), and supporting documents that relate to the imposition of tax on unrelated business income must be made available for public inspection when attached to a section 501(c)(3) organization's Form 990-T filed after August 17, 2006.

The following documents, when attached to a section 501(c)(3) organization's Form 990-T filed after August 17, 2006, aren't required to be made available for public inspections.

- Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation;
- Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations;
- Form 8271, Investor Reporting of Tax Shelter Registration Number;
- Form 8594, Asset Acquisition Statement Under Section 1060;
- Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund;
- Form 8832, Entity Classification Election;
- Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities;
- Form 8865, Return of U.S. Person with Respect to Certain Foreign Partnerships;
- Form 8886, Reportable Transaction Disclosure Statement;
- Form 8913, Credit for Federal Telephone Excise Tax Paid;
- Form 8925, Report of Employer-Owned Life Insurance Contracts; and
- Form 8941, Credit for Small Employer Health Insurance Premiums.
- Form 8975 Country-by-Country Report.

## Public Inspection

### How Does a 501(c)(3) Organization Make Its Annual Returns Available for Public Inspection?

A 501(c)(3) organization must make its annual returns available in two ways.

- By office visitation, and
- By providing copies or making them widely available.

#### Public Inspection by Office Visitation

A 501(c)(3) organization must make its annual returns available for public inspection without charge at its principal, regional, and district offices during regular business hours.

**Conditions that may be set for public inspection at the office.** A 501(c)(3) organization:

- May have an employee present,
- Must allow the individual conducting the inspection to take notes freely during the inspection, and
- Must allow an individual to make photocopies of documents at no charge but only if the individual brings photocopying equipment to the place of inspection.

**Determining if a site is a regional or district office.** A regional or district office is any office of a 501(c)(3) organization, other than its principal office, that has paid employees whose total number of paid hours a week are normally 120 hours or more. Include the hours worked by part-time (as well as full-time) employees in making that determination.

**What sites aren't considered a regional or district office.** A site isn't considered a regional or district office if:

1. The only services provided at the site further the organization's exempt purposes (for example, day care, health care, or scientific or medical research), and
2. The site doesn't serve as an office for management staff, other than managers who are involved only in managing the exempt function activities at the site.

#### **What if the 501(c)(3) organization doesn't maintain a permanent office?**

If the 501(c)(3) organization doesn't maintain a permanent office, it will comply with the public inspection by office visitation requirement by making the annual returns available at a reasonable location of its choice. It must permit public inspection:

- Within a reasonable amount of time after receiving a request for inspection (normally, not more than 2 weeks), and

- At a reasonable time of day.

**Optional method of complying.** If a 501(c)(3) organization that doesn't have a permanent office wishes not to allow an inspection by office visitation, it may mail a copy of the requested documents instead of allowing an inspection. However, it must mail the documents within 2 weeks of receiving the request and may charge for copying and postage only if the requester consents to the charge.

**501(c)(3) organizations with a permanent office but limited or no hours.** Even if a 501(c)(3) organization has a permanent office but no office hours or very limited hours during certain times of the year, it must still meet the office visitation requirement. To meet this requirement during those periods when office hours are limited or not available, follow the rules above under *What if the 501(c)(3) organization does not maintain a permanent office?*

#### Public Inspection—Providing Copies

A 501(c)(3) organization must provide copies of its annual returns to any individual who makes a request for a copy in person or in writing unless it makes these documents widely available.

**In-person requests for document copies.** A 501(c)(3) organization must provide copies to any individual who makes a request in person at the 501(c)(3) organization's principal, regional, or district offices during regular business hours on the same day that the individual makes the request.

**Accepted delay in fulfilling an in-person request.** If unusual circumstances exist and fulfilling a request on the same day places an unreasonable burden on the 501(c)(3) organization, it must provide copies by the earlier of:

- The next business day following the day that the unusual circumstances end, or
- The fifth business day after the date of the request.

Examples of unusual circumstances include:

- Receipt of a volume of requests (for document copies) that exceeds the 501(c)(3) organization's daily capacity to make copies,
- Requests received shortly before the end of regular business hours that require an extensive amount of copying, or
- Requests received on a day when the 501(c)(3) organization's managerial staff capable of fulfilling the request is conducting official duties (for example, student registration or attending an off-site meeting or convention) instead of its regular administrative duties.

**Use of local agents for providing copies.** A 501(c)(3) organization may use a local agent to handle in-person requests for document copies. If a 501(c)(3) organization uses a local agent, it must immediately provide the local agent's name, address, and telephone number to the requester.

The local agent must:

- Be located within reasonable proximity to the principal, regional, or district office where the individual makes the request, and
- Provide document copies within the same time frames as the 501(c)(3) organization.

#### **Written requests for document copies.**

If a 501(c)(3) organization receives a written request for a copy of its annual returns (or parts of these documents), it must give a copy to the requester. However, this rule only applies if the request:

- Is addressed to a 501(c)(3) organization's principal, regional, or district office;
- Is delivered to that address by mail, electronic mail (email), facsimile (fax), or a private delivery service approved by the IRS (see *Private delivery services (PDSs)*, earlier, for a list), and
- Gives the address to which the document copies should be sent.

#### **How and when a written request is fulfilled.**

- Requested document copies must be mailed within 30 days from the date the 501(c)(3) organization receives the request.
- Unless other evidence exists, a request or payment that is mailed is considered to be received by the 501(c)(3) organization 7 days after the postmark date.
- If an advance payment is required, copies must be provided within 30 days from the date payment is received.
- If the 501(c)(3) organization requires payment in advance and it receives a request without payment or with insufficient payment, it must notify the requester of the prepayment policy and the amount due within 7 days from the date it receives the request.
- A request that is transmitted to the 501(c)(3) organization by email or fax is considered received the day the request is transmitted successfully.
- Requested documents can be emailed instead of the traditional method of mailing if the requester consents to this method.

A document copy is considered as provided on the:

- Postmark date,
- Private delivery date,
- Registration date for certified or registered mail,
- Postmark date on the sender's receipt for certified or registered mail, or



- Day the email is successfully transmitted (if the requester agreed to this method).

**Requests for parts of a document copy.** A person can request all or any specific part or schedule of the annual returns and the 501(c)(3) organization must fulfill their request for a copy.

**Can an agent be used to provide copies?** A 501(c)(3) organization can use an agent to provide document copies for the written requests it receives. However, the agent must provide the document copies under the same conditions that are imposed on the 501(c)(3) organization itself. Also, if an agent fails to provide the documents as required, the 501(c)(3) organization will continue to be subject to penalties.

**Example.** The ABC Organization retained an agent to provide copies for all written requests for documents. However, ABC Organization received a request for document copies before the agent did.

The deadline for providing a response is referenced by the date that the ABC Organization received the request and not when the agent received it. If the agent received the request first, then a response would be referenced to the date that the agent received it.

**Can a fee be charged for providing copies?** A 501(c)(3) organization may charge a reasonable fee for providing copies. Also, it can require the fee to be paid before providing a copy of the requested document.

**What is a reasonable fee?** A fee is reasonable only if it is no more than the per-page copying fee charged by the IRS for providing copies, plus no more than the actual postage costs incurred to provide the copies.

**What forms of payment must the 501(c)(3) organization accept?** The form of payment depends on whether the request for copies is made in person or in writing.

Cash and money order must be accepted for in-person requests for document copies. The 501(c)(3) organization, if it wishes, may accept additional forms of payment.

Certified check, money order, and either personal check or credit card must be accepted for written requests for document copies. The 501(c)(3) organization, if it wishes, may accept additional forms of payment.

**Other fee information.** If a 501(c)(3) organization provides a requester with notice of a fee and the requester doesn't pay the fee within 30 days, the 501(c)(3) organization may ignore the request.

If a requester's check doesn't clear on deposit, the 501(c)(3) organization may ignore the request.

If a 501(c)(3) organization doesn't require prepayment and the requester doesn't prepay, the 501(c)(3) organization must receive consent from the requester if the copying and postage charge exceeds \$20.

**501(c)(3) organizations subject to a harassment campaign.** If the IRS determines that a 501(c)(3) organization is being harassed, it isn't required to comply with any request for copies that it reasonably believes is part of the harassment campaign.

A group of requests for a 501(c)(3) organization's annual return is indicative of a harassment campaign if the requests are part of a single coordinated effort to disrupt the operations of the 501(c)(3) organization rather than to collect information about it.

**Requests that may be disregarded without IRS approval.** A 501(c)(3) organization may disregard any request for copies of all or part of any document beyond the first two received within any 30-day period or the first four received within any 1-year period from the same individual or the same address.

## Making the Annual Returns Widely Available

A 501(c)(3) organization doesn't have to provide copies of its annual returns if it makes these documents widely available. However, it must still allow public inspection by office visitation.

**How does a 501(c)(3) organization make its annual returns widely available?** A 501(c)(3) organization's annual returns are widely available if it meets all four of the following requirements.

1. The Internet posting requirement is met if:
  - The document is posted on an Internet page that the 501(c)(3) organization establishes and maintains, or
  - The document is posted as part of a database of like documents of other tax-exempt organizations on an Internet page established and maintained by another entity.
2. An additional posting information requirement is met if:
  - The Internet page through which the document is available clearly informs readers that the document is available and provides instructions for downloading the document;
  - After it is downloaded and viewed, the web document exactly reproduces the image of the annual return as it was originally filed with the IRS, except for any

information permitted by statute to be withheld from public disclosure; and

- Any individual with access to the Internet can access, download, view, and print the document without special computer hardware or software required for that format (except software that is readily available to members of the public without payment of any fee) and without payment of a fee to the 501(c)(3) organization or to another entity maintaining the web page.

3. The reliability and accuracy requirements are met if the entity maintaining the Internet page:

- Has procedures for ensuring the reliability and accuracy of the document that it posts on the page;
- Takes reasonable precautions to prevent alteration, destruction, or accidental loss of the document when posted on its page; and
- Corrects or replaces the document if a posted document is altered, destroyed, or lost.

4. The notice requirement is met if a 501(c)(3) organization notifies any individual requesting a copy of its annual return where the documents are available (including the Internet address). If the request is made in person, the 501(c)(3) organization must notify the individual immediately. If the request is in writing, it must notify the individual within 7 days of receiving the request.

## Penalties

A penalty may be imposed on any person who doesn't make the annual returns (including all required attachments) available for public inspection according to the section 6104(d) rules discussed, earlier. If more than one person fails to comply, each person is jointly and severally liable for the full amount of the penalty. The penalty amount is \$20 for each day during which a failure occurs. The maximum penalty that may be imposed on all persons for any one annual return is \$10,000.

Any person who willfully fails to comply with the section 6104(d) public inspection requirements is subject to an additional penalty of \$5,000.

# Specific Instructions

## Period Covered

File the 2017 return for calendar year 2017 or a fiscal year beginning in 2017 and ending in 2018. For a fiscal year, fill in the tax year information at the top of the form.

The 2017 Form 990-T may also be used if:

- The organization has a tax year of less than 12 months that begins and ends in 2018, and
- The 2018 Form 990-T isn't available at the time the organization is required to file its return. The organization must show its 2018 tax year on the 2017 Form 990-T and take into account any tax law changes that are effective for tax years beginning after December 31, 2017.

## Name and Address

The name and address on Form 990-T should be the same as the name and address shown on other Forms 990.

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

If the organization receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.



**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.
- A trust—an amendment to the trust agreement 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 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-B, Change of Address or Responsible Party - Business, 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 parentheses.

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 exempt organizations that don't 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)

For an "applicable reinsurance entity" described in section 1341(c)(1) of the Affordable Care Act of 2010 (ACA), don't check any of the boxes. Instead, write "Applicable Reinsurance Entity" across the top of the Form 990-T.

**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 may be applied for:

- Online—Click on the *Employer ID Numbers (EINs)* link at [Business & Self-Employed Center](#). The EIN is issued immediately once the application information is validated.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

**Note.** Only organizations located in the United States or U.S. possessions can use the online application. Foreign organizations must use one of the other methods to apply for an EIN.

**Block E.** Enter the applicable unrelated business activity code(s) that specifically describes the organization's unrelated business activity. If a specific activity code doesn't accurately describe the organization's activities, then choose a general code (listed later) that best describes its activity.

**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, unless you are an applicable reinsurance entity under section 1341(c)(1) of the ACA.

"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, the box for 529(a) in Block B must be 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.

An applicable reinsurance entity should check **none** of the boxes.

**Block H.** Describe the primary unrelated business activity of your organization based on unrelated income. Attach a statement 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 isn't 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 lines 1 through 13, column (A). If the amount on line 13 is \$10,000 or less, you may complete only line 13 for columns (B) and (C). These filers don't 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. Refer to the corresponding schedules to determine the amount to be reported on each line.

**Member income of mutual or cooperative electric companies.** Income of a mutual or cooperative electric company described in section 501(c)(12) which is treated as member income under subparagraph (H) of that section is excluded from unrelated business taxable income.

**Income from qualifying shipping activities.** The organization's gross income doesn't include income from qualifying shipping activities (as defined in section 1356) if the organization makes an election under section 1354 on a timely filed return (including extensions) to be taxed on its notional shipping income (as

defined in section 1353) at the highest corporate rate (35%). If the election is made, the organization generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. An organization making this election also may elect to defer gain on the disposition of a qualifying vessel under section 1359. Use Form 8902, *Alternative Tax on Qualifying Shipping Activities*, to figure the tax. Include the alternative tax on Form 990-T, Part IV, line 43.

#### Passive loss and at-risk limitations.

Under section 469, certain taxpayers, including certain tax-exempt organizations, may not deduct a passive activity loss (PAL). Such tax-exempt organizations ("affected tax-exempt organizations") include a trust (such as a trust described in section 501(c), a trust described in section 401(a), or an IRA), and a corporation if at any time during the last half of its tax year more than 50% in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for not more than five organizations that are private foundations under section 509(a) or are described in sections 401(a) or 501(c)(17) (for example, a stock corporation described in section 501(c)(2) with a 401(a) parent or private foundation parent).

A PAL occurs when total losses (including prior year unallowed losses) from all your passive activities exceed the total income from all your passive activities. Generally, passive activities include: (1) trade or business activities in which you didn't materially participate for the tax year; and (2) rental activities, regardless of your participation. If you have income or loss from a passive activity, several lines on the Form 990-T may be affected by these rules.

PALs can't be used to offset income from nonpassive activities. Passive activity income doesn't include portfolio income. Portfolio income (see Temp. Reg. section 1.469-2T(c)(3)) is income from a nonpassive activity. Portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest, dividends, annuities, and royalties (by contrast, a bank's receipt of interest is in the ordinary course of a trade or business, as is a securities dealer's receipt of dividends). Portfolio income also includes gain or loss from the disposition of property that produces portfolio income or is held for investment (see section 163(d)(5)). The rule treating portfolio income as not from a passive activity doesn't apply to the extent that income, of a type generally regarded as portfolio income, is derived in the ordinary course of a trade or business. For example, the business income of a bank typically is largely interest. Similarly, a securities

broker/dealer may earn a substantial portion of the income from the business in the form of dividends and gains on sales of dividend-bearing instruments. Interest income may also arise in the ordinary course of a trade or business with respect to installment sales and interest charges on accounts receivable. This means that portfolio income may not be reduced by PALs or passive activity credits. For example, any portfolio income earned by a trust described in section 501(a) that is unrelated business taxable income (such as unrelated debt-financed income) may not be offset by PALs from an unrelated trade or business.

Section 469(k) provides that the passive activity limitations must be applied separately to items from each publicly traded partnership (PTP). A PTP is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent). PALs from a PTP generally may be used only to offset income or gain from passive activities of the same PTP. This means that a partner in a PTP may not use PALs and passive activity credits from a PTP to offset income from other sources, including passive activity income from another PTP. Such PALs and passive activity credits aren't allowed for the taxable year.

Generally, PALs are subject to other limitations (for example, basis and at-risk limitations) before they are subject to the PAL limitations. For example, the at-risk rules under section 465 generally prohibit trusts and corporations that are affected tax-exempt organizations from claiming losses from activities in excess of the taxpayer's amount at risk in the activity.

An affected tax-exempt organization may need to attach Form 6198, *At-Risk Limitations*, and either Form 8582, *Passive Activity Loss Limitations*, or Form 8810, *Corporate Passive Activity Loss and Credit Limitations*. For more information on these rules, see Pub. 925, *Passive Activity and At-Risk Rules*.

**TIP** *How to report income received from a payment card and third party network transactions. An organization that receives a Form 1099-K reporting a "gross amount" received from payment card and third party network transactions in the tax year should report these amounts in the same manner as if the payments weren't reported on a Form 1099-K. There isn't any one specific line on which to report an amount from Form 1099-K; the correct line should be determined based on the nature of the payments. Some payments received may constitute unrelated business income; see the instructions below to determine the appropriate line. For instance, if some of the payments are sales income from an*

*unrelated business, then those payments would be reported on line 1a. Retain Forms 1099-K with your other records.*

## Line 1a. Gross Receipts or Sales

Enter the gross receipts from any unrelated trade or business regularly conducted that involves the sale of goods or performance of services.

**TIP** *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, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advance payments for services and certain goods by an accrual method organization, see Rev. Proc. 2004-34, 2004-22 I.R.B. 991, available at [IRS.gov/IRB2004-22](https://www.irs.gov/irb2004-22).

**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 don't 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 43.

Enter on line 1a and 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 statement 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 method organizations aren't required to accrue certain amounts to be received from the performance of services that, on the basis of their experience, won't be collected, if:

- The services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The organization's average annual gross receipts for the 3 prior tax years doesn't exceed \$5 million.

This provision doesn't apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. See Regulations section 1.448-2.

Organizations that qualify to use the nonaccrual experience method should attach a statement 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.

#### **Gain or loss on disposition of certain brownfield property.**

Gain or loss from the qualifying sale, exchange, or other disposition of a qualifying brownfield property (as defined in section 512(b)(19)(C)), which was acquired by the organization after December 31, 2004, is excluded from unrelated business taxable income and is excepted from the debt-financed rules for such property. See section 512(b)(19) and 514(b)(1)(E).

### **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)) aren't 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 organization (see *S Corporations*, later) is taxed as a capital gain or loss, and reported on line 4.

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 (and Form 8949, Sale and Other Dispositions of Capital Assets). Schedule D of Form 1041 or Form 1120 (and Form 8949 if applicable) must be attached to Form 990-T.

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, 2016, 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 (section 501(c)(3) organization) sold the building on December 31, 2017, 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 Schedule D (Form 1120) Part II, line 6. A trust should enter the gain on Schedule D (Form 1041), if applicable. In either scenario (a corporation or a trust), the educational organization must attach a statement to Form 990-T, in addition to the Schedule D attachment, showing how the gain was figured along the lines described in this example, if the details weren't provided with the Schedule D attachment(s).

**Disposition of property received from taxable subsidiary and used in unrelated business.** A taxable 80%-owned subsidiary corporation of one or more tax-exempt entities is generally subject to tax on a distribution in liquidation of its assets to its exempt parent (or parents). See section 337. The assets are treated as if sold at FMV.

"Tax-exempt entities" for this purpose include organizations described in sections 501(a), 529, and 115, charitable remainder trusts, U.S. and foreign governments; Indian tribal governments; international organizations; and similar non-taxable organizations.

A taxable corporation that transfers substantially all of its assets to a tax-exempt entity in a transaction that otherwise qualifies for nonrecognition treatment must recognize gain on the transaction as if it sold the assets at FMV. However, such a transfer isn't taxable if it qualifies as a like-kind exchange under section 1031 or an involuntary conversion under section 1033. In such a case the built-in appreciation is preserved in the replacement property received in the transaction. A "taxable corporation" is any corporation that isn't a tax-exempt entity as defined above, including an S corporation.

A corporation that changes status from taxable to tax-exempt is treated generally as if it transferred all of its assets to a tax-exempt entity immediately before the change in status (thus subjecting it to the tax on a deemed sale for fair FMV). This rule doesn't apply where the taxable corporation becomes exempt within 3 years of formation, or had previously been exempt and within several years (generally a period of 3 years) regains exemption, unless the principal purpose of the transactions is to avoid the tax on the change in status.

In the transactions described above, the taxable event is deferred for property that the tax-exempt entity immediately uses in an unrelated business. If the parent later disposes of the property, then any gain (not in excess of the amount not recognized) is included in the parent's unrelated business taxable income. If there is partial use of the assets in unrelated business, then there is partial recognition of gain or loss with respect to

the assets not so used. Property is treated as disposed if the tax-exempt entity no longer uses it in an unrelated business.

Losses on the transfer of assets to a tax-exempt entity are disallowed if part of a plan having a principal purpose of recognizing losses.

### 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 Form 4797, Part II, line 17.

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 wasn't 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

In general, combine all partnership income or loss (determined later) with all S corporation income or loss and enter it on line 5. Also, for trusts and certain corporations, there are limitations on income and losses (including from partnerships and S corporations) under section 469 (the passive activity loss and credit limitation rules) and section 465 (at-risk limitations). For more information on these rules, see the discussion of the application of the passive loss and at-risk limitations to affected tax-exempt organizations in the introductory instructions to *Part I. Unrelated Trade or Business Income*, earlier.

#### Partnerships

If the organization is a partner in a partnership conducting 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. The organization is required to notify the partnership of its tax-exempt status.

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

. 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 *s*, earlier for other information you must include.

### S Corporations

Qualified tax exempt organizations can be shareholders in an S corporation without the S corporation losing its status as an S corporation. Qualified tax exempt organizations that hold stock in an S corporation treat their stock interest as an interest in an unrelated trade or business. All items of income, loss, or deduction that the organization receives as a shareholder of the S corporation are taken into account in line 5 in figuring unrelated business taxable income and not reported on another line of Form 990-T that otherwise would apply, except capital gains and losses, which are reported on line 4. 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.** Employee stock ownership plans (ESOPs) don't follow these S corporation rules if the S corporation stock is an employer security as defined in section 409(l).

. Attach a statement to this return showing the qualified tax exempt's share of all items of income, loss, or deduction. 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. Show capital gains and losses separately and include them on line 4a. Also, see *s*, earlier, for other information you must include.

### Line 6. Rent income

Report on line 6 all rent income described in the instructions for Schedule C.

### Line 7. Unrelated Debt-Financed Income

Report on line 7 and Schedule E unrelated debt-financed income of the organization under sections 512(b)(4) and 514 only to the extent that the income doesn't constitute income from the conduct of an unrelated trade or business and isn't specifically taxable under other provisions of the Code, such as taxable rents from personal property leased with real property reportable on line 6 and Schedule C, or taxable interest, annuities, royalties, and rents from a controlled entity reportable on line 8 and Schedule F. See

Regulations section 1.514(b)-1(b)(2). Gain or loss from the sale or disposition of debt-financed property is reported on line 4 and not line 7 or Schedule E. Section 501(c)(7), (9), and (17) organizations should report income from debt-financed property on line 9 and Schedule G, not line 7 and Schedule E.

### Line 8. Interest, Annuities, Royalties, and Rents from Controlled Organizations

Report on line 8 and Schedule F interest, annuities, royalties, and rents (other than rents reportable on line 6 and Schedule C) from controlled entities to the extent taxable under section 512(b)(13). See Regulations section 1.512(b)-1(l)(5).

### Line 9. Investment Income of a Section 501(c)(7), (9), or (17) Organization

Report on line 9 and Schedule G all income of a section 501(c)(7), (9), or (17) organization from investments in securities and other similar investment income from nonmembers, other than rent income (gross rents are reportable on line 6 and Schedule C). For these purposes, investment income includes all income from debt-financed property.

### Line 12. Other Income

Enter on line 12 any item of unrelated business income that isn't reportable elsewhere on the return. Include:

- Recoveries of bad debts deducted in earlier years under the specific charge-off method. Attach a separate statement of any items of other income to your return;
- The amount from Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit;
- The amount from Form 8864, Biodiesel and Renewable Diesel Fuels Credit; and
- Proceeds received from employer-owned life insurance contracts issued after August 17, 2006. Complete Form 8925 and attach a copy to Form 990-T.

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

1. To provide for the payment of insurance benefits.
2. For a purpose specified in section 170(c)(4) (religious, charitable, scientific, literary, educational, etc.).
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 isn't used for the insurance activities.

Expenditures for lobbying aren't 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, and such use isn't consistent with the requirement for qualified 501(c)(3) bonds under section 145, 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 sections 150(b)(3) and (c).

**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.

See the instructions for Part III, lines 35c and 36, 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 don't have to complete lines 14 through 28 of Part II. However, you must complete Part II, lines 29 through 34.

**Directly connected expenses.** Only expenses directly connected with unrelated trade or business income (except charitable contributions) may be

deducted on these lines (see *Directly connected expenses*, earlier). Charitable contributions may be deducted, whether or not directly connected. Don't 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 shouldn't be included on Schedule K or Part II, line 14.

## Limitations on Deductions

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

### Activities Lacking a Profit Motive

In some instances it is necessary to report income whether or not it comes from a trade or business (including interest, annuities, royalties, and rents from controlled organizations, and income of a section 501(c)(7), (9), or (17) organization other than exempt function income). If income is attributable to an activity lacking a profit motive, then a net loss from the activity can't 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 isn't 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.

### Deductions Related to Property Leased to Tax-Exempt Entities

For property leased to a governmental or other tax-exempt entity, or in the case of property acquired after March 12, 2004, that is treated as tax-exempt use property other than by reason of a lease, the organization may not claim deductions related to the property when they exceed the organization's income from the lease payments. Amounts disallowed may be carried over to the next year and treated as a deduction concerning the property. See section 470.

### 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. 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 aren't



deductible until the property (to which the costs relate) is sold, used, or otherwise disposed of by the organization.

**Exceptions.** Section 263A doesn't 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;
- Geological and geophysical costs amortized under section 167(h);
- Intangible drilling costs for oil, gas, and geothermal property;
- Mining exploration and development costs; and
- Inventory of an organization that accounts for inventories in the same manner as materials and supplies that aren't incidental. See *Schedule A. Cost of Goods Sold*, later.

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, *Travel, Entertainment, Gift, and Car Expenses*.

**Travel.** The organization can't 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 mustn't 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 can't deduct an expense paid or incurred for use of a facility (such as a yacht or hunting lodge) for an activity usually considered entertainment, amusement, or recreation. For more information see [Pub529MiscellaneousDeductions](#).

### Amounts treated as compensation.

The organization generally 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 and if the total amount of such compensation isn't unreasonable.

## Reducing Certain Expenses For Which Credits Are Allowable

The organization must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the following current year credits.

- Disabled access credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Credit for employer-provided childcare facilities and services.
- Orphan drug credit.
- Credit for small employer pension plan start-up costs.
- Mine rescue team training credit.
- Credit for employer differential wage payments.

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

## Business start-up and organizational costs

For business start-up and organizational costs paid or incurred after September 8, 2008, an organization can deduct up to \$5,000 of such costs in the year it begins business (unless the organization elects to capitalize the full amount of such costs). The \$5,000 deduction is reduced (but not below zero) by the amount the total costs exceed \$50,000. If the total costs are \$55,000 or more, the deduction is reduced to zero. Any costs not deducted must be amortized as explained below.

**Note.** For start-up and organizational costs paid or incurred after September 8, 2008, the organization isn't required to attach a statement or specifically identify the amount deducted for the election under sections 195(b) and 248(a) to be effective. It is a deemed election. Whether an organization deducts a portion of its start-up and organizational costs under Regulations sections 1.195-1 and 1.248-1 or elects to amortize the full amount of such costs, its election is irrevocable. For start-up and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, an organization generally must attach the statement required by Regulation sections 1.195-1(b) and 1.248-1(c) to make the election to deduct a portion of such costs (as explained above). This election is irrevocable. However, an organization can apply the provisions of these regulations to costs paid or incurred after October 22, 2004.

**Amortization.** Any costs not deducted under the above rules must be amortized ratably over the 180-month period, beginning with the month the organization begins business. See the Instructions for Form 4562, *Depreciation and Amortization*, for details. If the association elected to amortize business start-up and organizational costs paid or incurred before October 23, 2004, over a period of 60 months or more, it must continue to amortize those costs over the elected amortization period. Report the deductible amount of these costs and any amortization on line 28. For amortization that began during the tax year, complete and attach Form 4562.

## 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 don't 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 statement listing the interest being claimed on this line.

- **Interest allocation.** If the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity), an interest allocation must be made. See Temp. Reg. section 1.163-8T for the interest allocation rules.
- **Tax-exempt interest.** Don't 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, during the tax year a cash basis taxpayer prepaid interest on a loan. The taxpayer can deduct only that part of the prepaid interest that was for the use of the loaned funds during the tax year, not for the use of the loaned funds during the subsequent years.
- **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).
- **Interest on certain underpayments of tax.** Interest paid or incurred on any portion of an underpayment of tax that is attributable to an understatement arising from an undisclosed listed transaction or an undisclosed reportable avoidance transaction (other than a listed transaction) entered into in tax years beginning after October 22, 2004.
- **Interest allocable to the production of designated property.** Don't 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 earlier property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

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

• **Interest on which no tax is imposed (section 163(j)).** For tax years beginning after May 16, 2006, an organization that owns an interest in a partnership, directly or indirectly, must treat its distributive share of the partnership liabilities, interest income, and interest expense as liabilities, income, and expenses of the organization for purposes of applying the earnings stripping rules. See section 163(j)(8).

## Line 19. Taxes and Licenses

Enter taxes and license fees paid or accrued during the year, but don't include the following taxes.

- Federal income taxes.
- Foreign or U.S. possession income taxes if a foreign tax credit is claimed.
- 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 goods 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 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 conduct of a trade or business.

**Corporations.** The total amount claimed normally can't be more than 10% of unrelated business taxable income figured without regard to the following.

- Any deduction for contributions.
- The domestic production activities deduction under section 199.
- Any net operating loss (NOL) carryback to the tax year under section 172.
- Any capital loss carryback to the tax year under section 1212(a)(1).

Corporations on the accrual basis can elect to deduct contributions paid by the 15th day of the 4th 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 statement to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration statement must also include the date the resolution was adopted. See Regulations section 1.170A-11.

**Suspension of 10% limitation for farmers and ranchers.** An organization that is a qualified farmer or rancher (as defined in section 170(b)(1)(E)) that doesn't have publicly traded stock can deduct contributions of qualified conservation property without regard to the general 10% limit. The total amount of the contribution claimed for the qualified conservation property can't exceed "100%" of the excess of the organization's taxable income (as computed above substituting "100%" for "10%" over all other allowable charitable contributions). Any excess qualified conservation contributions can be carried over the next 15 years subject to the 100% limitation. See section 170(b)(2)(B).

Contributions of conservation property made after August 17, 2006, that is used in agriculture or live stock production must remain available for such productions.

**Carryover.** Charitable contributions over the 10% limitation can't 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 isn't allowed. See section 170(d)(2)(B).

**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 donee organization that shows the amount of cash contributed, describes any property contributed, and either gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution or states that no goods or services were provided in return for the contribution. The acknowledgment must be obtained by the due date (including extension) of the organization's return, or, if earlier, the date the return is filed. However, see section 170(f)(8) and the related regulations for exceptions to this rule. Don't attach the acknowledgment to the return but keep it with the organization's records.

**Note.** For contributions of cash, check, or other monetary gifts (regardless of the amount), the organization must maintain a bank record, or a receipt, letter, or other written communication from the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution.

**Contributions of property other than cash.** If an organization contributes property other than cash and claims over a \$500 deduction for the property, it must attach a statement to the return describing the kind of property contributed and the method used to determine its fair market value (FMV). All organizations generally must complete and attach Form 8283, Noncash Charitable Contributions, to their returns for contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000. Special rules apply to the contribution of certain property. See the Instructions for Form 8283. A donee organization must use Form 8282, Donee Information Return, to report information to the IRS and donors about dispositions of certain charitable deduction property made within 3 years after the donor contributed the property. See the Instructions for Form 8282.

**Special rules for contributions of certain easements in registered historic districts.** The following rules apply to certain contributions of real property interests located in a registered historic district.

- A deduction is allowed for the qualified real property interest, if the exterior of the building (including the front, side, rear, and space above the building) is

preserved and no portion of the exterior is changed in a manner that is inconsistent with its historical character. See section 170(h)(4)(B).

- A deduction is allowed on the building only (no deduction is allowed for a structure or land) if located in a registered historic district. However, if listed in the National Register, a deduction is also allowed for structures or land areas. See section 170(h)(4)(C).

- The organization must also include the following information with the tax return.

1. A qualified appraisal (as defined in section 170(f)(11)(E)) of the qualified property interest,
2. Photographs of the entire exterior of the building, and
3. A description of all restrictions on the development of the building. See section 170(h)(4)(B)(iii).

- The organization's deduction may be reduced if rehabilitation credits were claimed on the building. See section 170(f)(14).

- A \$500 filing fee may apply to certain deductions over \$10,000. See section 170(f)(13).

**Reduced deductions for contributions for certain property.** The organization must reduce its deduction for contributions of certain capital gain property and qualified appreciated stock. See sections 170(e)(1) and 170(e)(5).

**Special rules for corporation.** A larger deduction is allowed for certain contributions of:

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants (including contributions of apparently wholesome food and contributions of qualified book inventory to public schools) (see section 170(e)(3) and Regulations section 1.170A-4A); and
- Scientific equipment used for research to institutions of higher learning or to certain scientific research organizations (see section 170(e)(4)).

See section 170, the related regulations, and Pub. 526, Charitable Contributions.

#### **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 the tax year or carried over from the prior tax year. See Form 4562 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 IRC 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 (such as insurance, health, and welfare programs) that aren't 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 statement 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.

**Domestic production activities deduction.** Complete Form 8903 and enter the deduction on this line.

Don't deduct fines or penalties paid to a government for violating any law.

#### **Extraterritorial income exclusion.**

Complete Form 8873 and enter the deduction from line 52, on this line.

Don't deduct fines or penalties paid to a government for violating any law. The exclusion was repealed generally for transactions after 2004, with some exceptions. See Form 8873 and its instructions.

#### **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. To be deductible, an NOL must have been incurred in an unrelated trade or business activity. See section 172(a).

Enter on line 31 the total NOL carryover from other tax years, but don't enter more than the amount shown on line 30. An organization that claims the deduction with respect to any NOL carried through taxable years for which the organization was not required to file Form 990-T must show the amount of the deduction and how it was computed, but the organization need not file a Form 990-T in order to preserve an NOL carryover. The amount



of an NOL carryback or carryover is determined under section 172. See Regulations section 1.512(b)-1(e). Attach a statement showing the computation of the NOL deduction.

Under Code section 172(b), an organization generally may carry an NOL back up to 2 tax years or forward up to 20 tax years. An organization that wishes to carry an NOL back to a prior year must file an amended Form 990-T for that year. Form 1045 or 1139 can't be used for this purpose, though it may be attached to the amended Form 990-T to show the NOL computation. See Pub. 536, Net Operating Losses for Individuals, Estates and Trusts.

### 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 aren't 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 statement 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 aren't separate legal entities. These local units can't file separate returns because they aren't separately incorporated. Local units that are separately incorporated must file their own returns and can't be included with any other entity except for a title holding company. See *Consolidated Returns*, earlier.

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. Lines 35a and 35b must agree with amount(s) reported on the

Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group, filed by the other component members of the controlled group. See Schedule O (Form 1120) and its instructions.

The term "controlled group" means any parent-subsidary group, brother-sister group, or combined group. See the definitions below.

#### **Parent-subsidary group.**

Parent-subsidary group is one or more chains of corporations connected through stock ownership with a common parent corporation if:

- Stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of each of the corporations, except the common parent corporation, is directly or indirectly owned by one or more of the other corporations; and
- The common parent corporation directly or indirectly owns stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporation.

#### **Brother-sister group.**

A brother-sister group is two or more corporations if the same five or fewer persons who are individuals, estates, or trusts directly or indirectly own stock possessing:

1. At least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of the stock of each corporation, and
2. More than 50% of the total combined voting power of all classes of stock entitled to vote or more than 50% of the total value of shares of all classes of stock of each corporation, taking into account the stock ownership of each such person only to the extent such stock ownership is identical with respect to each such corporation.

The definition of a brother-sister group doesn't include item 1, earlier, for purposes of determining and allocating the following.

- Taxable income brackets,
- Accumulated earnings credit,
- Alternative minimum tax exemption amount,
- Phaseout of the alternative minimum tax exemption amount, or
- The additional tax.

For purposes of determining whether a corporation is a member of a brother-sister controlled group of corporations, within

the meaning of section 1563(a)(2), stock owned by a person who is an individual, estate, or trust means:

- Stock owned directly by such person, and
- Stock owned with the application of section 1563(e).

**Combined group.** A combined group is three or more corporations each of which is a member of a parent-subsidary group or a brother-sister group, and one of which is:

- A common parent corporation included in a group of corporations in a parent-subsidary group, and
- Included in a group of corporations in a brother-sister group.

See section 1563.

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 don't 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 can't 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 statement 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.

Don't 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 Form 990-T, page 2. 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* shown below to figure the tax.



*Members of a controlled group use the Tax Computation Worksheet for Members of a Controlled Group shown below to figure the tax. Members of a controlled group should see the instructions, earlier, 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

If the amount on line 34 is:

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

## Tax 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:

1. Enter unrelated business taxable income (Form 990-T, line 34) . . . . .
2. Enter line 1 or corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . .
3. Subtract line 2 from line 1 . . . . .
4. Enter line 3 or corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . .
5. Subtract line 4 from line 3 . . . . .
6. Enter line 5 or corporation's share of the \$9,925,000 taxable income bracket, whichever is less . . . . .
7. Subtract line 6 from line 5 . . . . .
8. Enter 15% of line 2 . . . . .
9. Enter 25% of line 4 . . . . .
10. Enter 34% of line 6 . . . . .
11. Enter 35% of line 7 . . . . .
12. 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). . . . .
13. 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). . . . .
14. Add lines 8 through 13. Enter here and on Form 990-T, line 35c . . . . .

## 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 unrelated business taxable income 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 and qualified dividends, complete Schedule D (Form

1041) and enter on line 36 the tax from Schedule D (Form 1041). Check the "Schedule D" box on line 36 and attach Schedule D (Form 1041) to Form 990-T.

## Tax Rate Schedule for Trusts

If the amount on line 34, is:

Over—	But not over—	Tax is:	Of the amount over—
\$0.00	\$2,550	15%	\$0.00
2,550	6,000	\$382.50 + 25%	2,550
6,000	9,150	1,245 + 28%	6,000
9,150	12,500	2,127 + 33%	9,150
12,500	-----	3,232.50 + 39.6%	12,500

## 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 statement 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 the Instructions for Form 990 and Rev. Proc. 98-19, 1998-1 C.B. 547, for exceptions.

If the organization elects not to provide the notices described earlier, it must pay the proxy tax described in section 6033(e)(2). If the organization doesn't include the entire amount of allocable dues in the notices, it may have to pay the proxy tax. This tax isn't applicable to section 501(c)(3) organizations. Figure the proxy tax by multiplying the aggregate amount not included in the notices described earlier 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 (Form 1041), Alternative Minimum Tax—Estates and Trusts, 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.

## Line 39. Tax on Non-Compliant Facility Income.

There is a tax on a hospital organization's non-compliant facility income, see final regulations section 1.501(r)-2 for more information. This tax is an income tax and is separate from the excise tax on a failure

to meet the community health needs assessment requirements of section 501(r)(3) that is reported on Form 4720.

## Part IV. Tax and Payments

### Line 41a. Foreign Tax Credit

- **Corporations.** See Form 1118, Foreign Tax Credit—Corporations, for an explanation of when a corporation can claim this credit for payment of income tax to a foreign country or U.S. possession.
- **Trusts.** See Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), 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 41b. Other Credits

- **Qualified electric vehicle credit.** Include on line 41b any credit from Form 8834, Qualified Electric Vehicle Credit. Complete and attach Form 8834.
- **Credit to holders of tax credit bonds.** Enter the amount of the credit to holders of clean renewable energy bonds (for bonds issued before 2010), new clean renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds, qualified school construction bonds, and Build America bonds, and attach Form 8912.

### Line 41c. General Business Credit

Enter on line 41c the organization's total general business credit (excluding the work opportunity credit, the empowerment zone employment credit, the Indian employment credit, and the credit for employer differential wage payments). Additionally, in some cases, certain general business credits should not be claimed if the seller of the property discloses to the organization that the seller intends to claim the credit and discloses the tentative amount of the credit. These include the qualified electric vehicle credit, the alternative motor vehicle credit, the alternative fuel vehicle refueling property credit, and the qualified plug-in electric drive motor vehicle credit.

The organization is required to file Form 3800, General Business Credit, to claim any business credit. For a list of credits, see Form 3800. Include the allowable credit from Form 3800, Part II, line 32, on Form 990-T, line 41c.



*An organization described in section 501(c) which is exempt from tax under section 501(a) should not use Form 3800 to claim the refundable small employer tax credit for certain health insurance premiums paid on behalf of its employees. See the instructions for line 45f.*

### Line 41d. Credit for Prior Year Minimum Tax

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

### Line 43. 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 43. Check the box for "Other" if the organization includes any of the taxes and interest discussed. See *How to report*, below, for details on reporting these amounts on an attached statement.

- 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)).
- If the organization makes the election to be taxed on its income from qualifying shipping activities, complete and attach Form 8902 to Form 990-T. See *Income from qualifying shipping activities*, earlier.

**How to report.** If the organization checked the "Other" box, attach a statement showing the computation of each item included in the total for line 43. In addition, identify (a) the applicable IRC 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 statement.

### Line 44. 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 44. See Form 8621, Part V, and *How to report*, later.

Subtract from the total entered on line 44 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 statement showing the computation of each item included in, or subtracted from, the total on line 44. On the dotted line next to line 44, specify (a) the applicable IRC section, (b) the type of tax, and (c) enter the amount of tax.

### Line 45b. 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 45b, write "T" and the amount attributable to it.

### Line 45d. Foreign Organizations

Enter the tax withheld on unrelated business taxable income from U.S. sources that isn't 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 another form which verifies the withheld tax reported on line 45d.

### Line 45e. Backup Withholding

Recipients of dividend or interest payments must generally certify their correct tax identification number to the bank or other payer on Form W-9. If the payer doesn't 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 didn't 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 45e. See Backup withholding under *Which Parts To Complete*, earlier.



## Line 45f. Credit for Small Employer Health Insurance Premiums

An organization described in section 501(c) which is exempt from tax under section 501(a) may be eligible to claim the refundable small employer tax credit for a percentage of certain health insurance premiums paid on behalf of its employees.

A tax-exempt eligible small employer can request the refundable credit by attaching Form 8941, Credit for Small Employer Health Insurance Premiums, showing the calculation for the amount of the refundable credit claimed. A tax-exempt organization isn't eligible for the refundable credit if it isn't an organization that is described in section 501(c) which is exempt from tax under section 501(a). The organization must keep records to substantiate the amount of the credit claimed.



*If a tax-exempt eligible small employer is filing Form 990-T only to request a credit for small employer health insurance premiums paid, 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 44.
3. Enter the credit from Form 8941, line 20, on line 45f.
4. Complete lines 46, 49, 50, and the signature area.
5. Write "Request for 45R Credit Only" on the top of Form 990-T.

## Line 45g. Other Credits and Payments

Check the appropriate box(es) and enter:

- From Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, the credit from a regulated investment company (RIC) or a real estate investment trust (REIT). Also, attach Form 2439. If you are filing a composite Form 990-T, see *Composite Form 990-T* under *Which Parts To Complete*, earlier.

- From Form 4136, the credit for federal tax paid on fuels. Also, attach Form 4136, Credit for Federal Tax Paid on Fuels, if the organization qualifies to claim this credit.
- The credit for ozone-depleting chemicals. Include any credit the organization is claiming under section 4682(g) for taxes paid on chemicals used as propellants in metered-dose inhalers.

After entering these amounts in the appropriate spaces, add them all together and enter the total on line 45g.



*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. 510, Excise Taxes (Including Fuel Tax Credits and Refunds).*

## Line 48. Tax Due

Domestic organizations owing less than \$500 and foreign organizations that don't 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*, earlier.

## Part V. Statements Regarding Certain Activities and Other Information

Complete all items in Part V.

**Line 51.** Check "Yes" if either item 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, earlier.

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 FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), 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). If the organization is required to file this form, file FinCEN Form 114 electronically with the Department of the Treasury using FinCEN's BSA E-Filing System. Because FinCEN Form 114 isn't a tax form, don't file it with Form 990-T.

See [www.fincen.gov/](http://www.fincen.gov/) for more information

**Line 52.** 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; or
- It received a distribution from a foreign trust.

See the Instructions for Form 3520.



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

**Line 53.** 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 a 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.

**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 doesn't 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 Use Only* area.

The paid preparer must complete the required preparer information.

- Sign the return in the space provided for the preparer's signature.
- Give a copy of the return to the organization.

**Note.** A paid preparer may sign original returns, amended returns, or requests for filing extension by rubber stamp, mechanical device, or computer software program. Also, facsimile signatures are authorized.

**Paid preparer authorization.** If the organization wants to allow the IRS to discuss this 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 Use Only* section of its return. It doesn't 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 won't be sent to the preparer.

The organization isn't 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 can't be revoked. However, the authorization will automatically end no later than the due date (excluding extension) for filing next year's Form 990-T.



*Enter the paid preparer's PTIN, not his or her Social Security number (SSN), in the "PTIN" box in the paid preparer's block. Because Form 990-T is publicly disclosable when filed by a 501(c)(3) organization, any information entered in this block will be publicly disclosed. For more information about PTIN's, visit the IRS website at [www.irs.gov/taxpros](http://www.irs.gov/taxpros).*

## 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 or a qualifying small business taxpayer, it may adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that aren't incidental (unless its business is a tax shelter (as defined in section 448(d)(3))).

A qualifying taxpayer is a taxpayer that, for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3-tax-year period ending with that prior tax year.

A qualifying small business taxpayer is a taxpayer (a) that has average annual gross receipts of \$10 million or less for the 3-tax-year period ending with that prior tax year, and (b) whose principal business activity isn't an ineligible activity.

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). For additional guidance on this method of accounting for inventoriable items, see Pub. 538 and the Instructions for Form 3115.

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.

All filers not using the cash method of accounting should see Section 263A uniform capitalization rules, earlier in the instructions for *Limitations on Deductions* before completing Schedule A. The instructions for lines 1, 4a, 4b, and 6 later 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 is using the cash method of accounting, 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 aren't 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 doesn't 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. File Form 3115 to make this change.

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 bona fide selling price, minus direct cost of disposition (but not less than scrap value). Bona fide selling price means actual offering of goods during a period ending not later than 30 days after inventory date.

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) 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 earlier).

**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 weren't 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 1.263A-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 aren't incidental, enter on line 6 the portion of its raw materials and merchandise purchased for resale that are included on line 5 and weren't sold during the year.

## Schedule C. Rent Income

Section 501(c)(7), (9), and (17) organizations, enter gross rents in Part I, line 6, and applicable expenses in 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. 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 not leased with real property should be reported on Part I, line 12.

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. Don't include in Schedule E amounts allocated to exempt purposes.



*For section 514 purposes, don't 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.** 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. Acquisition indebtedness also includes indebtedness incurred:

1. Before the property was acquired or improved, if the indebtedness would not have been incurred but for such acquisition or improvement of the property; or
2. After the property was acquired or improved, if the indebtedness would not have been incurred but for such acquisition or improvement and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition or improvement. See Regulations section 1.514(c)-1(a).

With certain exceptions, acquisition indebtedness doesn't include debt incurred by:

1. A qualified (section 401) trust in acquiring or improving real property. See section 514(c)(9).
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.
4. An obligation, to the extent that it is insured by the Federal Housing Administration, to finance the purchase, rehabilitation, or construction of housing for low and moderate income persons, or indebtedness incurred by a small business investment company licensed after October 22, 2004, under the Small Business Investment Act of 1958 if such indebtedness is evidenced by a debenture issued by such company under section 303(a) of that Act, and held or guaranteed by the Small Business Administration (see section 514(c)(6)(B) for limitations).
5. A retirement income account described in section 403(b)(9) in acquiring or improving real property in tax years beginning on or after August 17, 2006.

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

**Column 2.** Income isn't unrelated debt-financed income if it is otherwise included in unrelated business taxable



income. For example, don't 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 earlier) 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 statements 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, don't 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 conducted.

**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 partnership or any other organization.

**Specified payment.** Specified payment means any payment of interest, annuities, royalties, or rents. 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.

### Qualifying specified payment.

Qualifying specified payment means any payment of interest, annuities, royalties, or rents received or accrued from the controlled organization after December 31, 2005, pursuant to a binding written contract that was in effect on August 17, 2006, or is a renewable contract under substantially similar terms of a contract in effect on August 17, 2006. Qualifying specified payments are subject to tax only on the amount that exceeds what would have been paid or accrued if such payment had been determined under the principles of section 482.

**Column 1 and 2.** List every controlled entity and its EIN from which your organization received interest, annuities, royalties, or rents. For each of the columns, if a controlled organization makes specified payments, some of which are qualifying specified payments and some of which aren't, report the qualifying specified payments on one line and all

other specified payments on another line. Thus, the organization must repeat the name of any controlled organization from which the organization receives both specified payments and qualifying specified payments.

**Column 3.** Enter the net unrelated income (or net unrelated loss) of each controlled entity listed that is exempt from tax under section 501(a).

**Column 7.** Enter each controlled organization's taxable income.

**Column 8.** Enter the net unrelated income (or net unrelated loss) of each controlled entity listed that isn't exempt from tax under section 501(a). Net unrelated income is that portion of the controlled entity's taxable income that would be unrelated business taxable income if the entity were exempt under section 501(a) and had the same exempt purposes as the controlling organization. Net unrelated loss is the controlled organization's net operating loss adjusted under rules similar to those used to determine net unrelated income.

**Column 4 or 9.** For each controlled organization, enter the total of specified payments received from each controlled organization. If the organization received both specified payments and qualifying specified payments from a controlled organization, enter specified payments on one line and qualifying specified payments on another so that there are dual entries for that controlled organization.

**Column 5 or 10.** For specified payments, enter the portion of columns 4 or 9 to the extent that the payment reduced the net unrelated income (or increased the net unrelated loss) of the controlled entity.

**Column 6 or 11.** Enter only those deductions directly connected with the income entered in columns 5 or 10.

With respect to qualifying specified payments, enter only that portion of expenses directly connected to the amounts included in columns 5 or 10, that is, the excess of the payment over the fair market value amount as determined in accordance with section 482. Don't enter any expenses relating to the portion of such payment that isn't includible in income under this special rule.



*For valuation misstatements regarding qualifying specified payments, there is a 20% addition to tax. See section 512(b)(13)(E)(ii).*

**Excess qualifying specified payments.** Excess qualifying specified payments received or accrued from a controlled entity (that is, the amount of qualifying specified payments in excess of what would have been paid or accrued if the payments had been determined under

section 482) are included in a controlling exempt organization's unrelated business taxable 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. Don't 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. Don't include interest on state and local governmental obligations described in section 103(a).

Investment income includes all income from debt-financed property.

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 aren't 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 can't be exempt function income. In addition, any income set aside and later expended for other purposes must be included in income.

Section 501(c)(7), (9), and (17) organizations won't 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, sickness, 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; or
3. Reasonable administration costs directly connected with 1 and 2, earlier.

Report income set aside in Schedule G, column 4. Amounts set aside aren't deductible under section 170 or any other section of the IRC.

The organization may elect to treat income set aside by the date for filing the return, including any extension of time, as income set aside in the tax year for which the return is filed. The income set aside must have been includible 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 wasn't for the purposes previously mentioned.

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, earlier).

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 earlier) 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 Schedule E, column 5, to determine the adjusted basis of the property.

## Schedule I. Exploited Exempt Activity Income, Other Than Advertising Income

Exempt organizations that have gross income from an unrelated trade or business activity that exploits an exempt activity (other than periodical advertising income reportable in Schedule J) should complete Schedule I. See Regulations

section 1.513-1(d)(4)(iv) for a definition of exploited exempt activity. Report income from advertising other than in a periodical in Schedule I.

An exempt organization may take all deductions directly connected with the gross income from the unrelated trade or business activity. In addition, the exempt 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 item 1, earlier, 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 isn't exploiting the same exempt activity.

As a result, 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, don't 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 statement showing the computation.

## Schedule J. Advertising Income

An exempt 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 conducted 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 for those officers, directors, and trustees whose salaries or other compensation are allocable to unrelated business gross income. Don't include in column 4 compensation that is deducted on lines 15, 28, or Schedules A through J.

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 are used both to conduct 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 isn't 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, don't 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 aren't 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 rules governing the confidentiality of Form 990-T are covered in sections 6103 and 6104.

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

Recordkeeping	67 hrs., 12 min.
Learning about the law or the form	27 hrs., 10 min.
Preparing the form	43 hrs., 25 min.
Copying, assembling, and sending the form to the IRS	4 hrs., 1 min.



**Comments and suggestions.** We welcome your comments about these instructions and your suggestions for future editions. You can write to us at the following address:

Internal Revenue Service  
Tax Forms and Publications Division  
1111 Constitution Ave. NW, IR-6526  
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can also send us comments from [IRS.gov/formspubs](https://www.irs.gov/formspubs). Click on “More Information” and then on “Comment on Tax Forms and Publications.”

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

Don't send the Form 990-T to this address. Instead, see *Where To File* earlier.

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## Photographs of Missing Children

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The IRS 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.

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## Phone Help

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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.

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## How To Get Forms and Publications

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### Internet

You can access the IRS website 24 hours a day, 7 days a week, at [IRS.gov](https://www.irs.gov) to:

- Download forms, including talking tax forms, instructions, and publications. You can download items from the IRS website at [IRS.gov/OrderForms](https://www.irs.gov/OrderForms).

- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code (IRC), Regulations, or other official guidance.

- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Sign up to receive local and national tax news by email. To subscribe, visit [IRS.gov/Charities](https://www.irs.gov/Charities).

publications. Otherwise, you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to order current and prior-year forms and instructions. Your order should arrive within 10 business days.

### Ordering Forms and Publications

Visit [IRS.gov/formspubs](https://www.irs.gov/formspubs) to download forms and

## Business Activity Codes

The codes listed in this section are a selection from the North American Industry Classification System (NAICS) that should be used in completing Form 990, Part VIII,

lines 2 and 11. If you don't see a code for the activity you are trying to categorize, select the appropriate code from the NAICS website at [www.census.gov/cgi-bin/sssd/](http://www.census.gov/cgi-bin/sssd/)

[naics/naicsrch?chart=2017](#).  
Select the most specific 6-digit code available that describes the activity producing the income being reported. Note that most codes describe more

than one type of activity. Avoid using codes that describe the organization rather than the income-producing activity.

Principal Business Activity Codes			activities. List first the largest in terms of gross unrelated income, then the next largest. When classifying your unrelated activities for example, code income from advertising in publications as 541800, Advertising and		related services, rather than selecting a code describing a printing or publishing activity.)	
(If engaged in more than one unrelated business activity, select up to two codes for the principal						
<b>Agriculture, Forestry, Hunting and Fishing</b>			<b>Professional, Scientific, and Technical Services</b>		<b>Arts, Entertainment, and Recreation</b>	
<b>Code</b>			<b>Code</b>		<b>code</b>	
110000 Agriculture, forestry, hunting and fishing			541100 Legal services		711110 Theater companies and dinner theaters	
111000 Crop production			541990 Consumer credit counseling services		711120 Dance companies	
<b>Mining</b>			541200 Accounting, tax preparation, bookkeeping, and payroll services		711130 Musical groups and artists	
<b>Code</b>			541300 Architectural, engineering, and related services		711190 Other performing art companies	
211110 Oil and gas extraction			541380 Testing laboratories		711210 Spectorator sports (including sports clubs and racetracks)	
211120 Crude petroleum extraction			541511 Custom computer programming services		711300 Promoters of performing arts, sports and similar events	
211130 Natural gas extraction			541519 Other computer-related services		713110 Amusement and theme parks	
212000 Mining (except oil and gas)			541610 Management consulting services		713200 Gambling industries	
<b>Utilities</b>			541700 Scientific research and development services		713910 Golf courses and country clubs	
<b>Code</b>			541800 Advertising and related services		713940 Fitness and recreational sports centers	
221000 Utilities			541860 Direct mail advertising		713990 All other amusement and recreation industries (including skiing facilities, marinas, and bowling centers)	
<b>Construction</b>			541900 Other professional, scientific, and technical services		<b>Accommodation and Food Services</b>	
<b>Code</b>			<b>Management of Companies and Enterprises</b>		<b>Code</b>	
230000 Construction			<b>Code</b>		721000 Accommodation	
236000 Construction of buildings			551111 Offices of bank holding companies		721110 Hotels (except casino hotels) and motels	
<b>Manufacturing</b>			551112 Offices of other holding companies		721210 RV (recreational vehicle) parks and recreational camps	
<b>Code</b>			<b>Administrative and Support Services</b>		721310 Rooming and boarding houses, dormitories, and workers' camps	
310000 Manufacturing			<b>Code</b>		722320 Caterers	
323100 Printing and related support activities			561000 Administrative and support services		722440 Drinking places (alcoholic beverages)	
339110 Medical equipment and supplies manufacturing			561300 Employment services		722511 Full-service restaurants	
<b>Wholesale Trade</b>			561439 Other business service centers		722513 Limited-service restaurants	
<b>Code</b>			561499 All other business support services		722514 Cafeterias and buffets	
423000 Merchant wholesalers, durable goods			561500 Travel arrangement and reservation services		722515 Snack and non-alcoholic beverage bars	
424000 Merchant wholesalers, nondurable goods			561520 Tour operators		<b>Other Services</b>	
<b>Retail Trade</b>			561700 Services to buildings and dwellings		<b>Code</b>	
<b>Code</b>			<b>Waste Management and Remediation Services</b>		811000 Repair and maintenance	
441100 Automobile dealers			<b>Code</b>		812300 Drycleaning and laundry services	
442000 Furniture and home furnishings stores			611420 Computer training		812900 Other personal services	
444100 Building materials and supplies dealers			611430 Professional and management development training		812930 Parking lots and garages	
445100 Grocery stores			611600 Other schools and instruction (other than elementary and secondary schools or colleges and universities, which should select a code to describe their unrelated activities)		<b>Other</b>	
445200 Specialty food stores			611710 Educational support services		<b>Code</b>	
446110 Pharmacies and drug stores			<b>Healthcare and Social Assistance</b>		900001 Investment activities of section 501(c)(7), (9), or (17) organizations	
446199 All other health and personal care stores			<b>Code</b>		900002 Rental of personal property	
448000 Clothing and clothing accessories stores			621110 Offices of physicians		900003 Passive income activities with controlled organizations	
451110 Sporting goods stores			621300 Offices of other health practitioners		900004 Exploited exempt activities	
451211 Book stores			621400 Outpatient care centers		900099 Other activity	
452000 General merchandise stores			621500 Medical and diagnostic laboratories			
453000 Miscellaneous store retailers			621610 Home health care services			
453220 Gift, novelty, and souvenir stores						
453310 Used merchandise stores						
454110 Electronic shopping and mail-order houses						
<b>Transportation and Warehousing</b>						
<b>Code</b>						
480000 Transportation						
485000 Transit and ground passenger transportation						
493000 Warehousing and storage						
<b>Information</b>						
<b>Code</b>						
511110 Newspaper publishers (except Internet)						
511120 Periodical publishers (except Internet)						
511130 Book publishers (except Internet)						



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