PacificCPE

COURSE

337512A

Tax-Exempt Orgs: Form 990-T Preparation

When tax-exempt organizations generate unrelated business income, Form 990-T is required, and the rules can be surprisingly complex. This course provides a comprehensive overview of Form 990-T, including detailed instructions for completing the main form and Schedule A. You'll learn how to identify unrelated business taxable income, apply deductions, and report tax liability correctly. Whether you're new to UBI reporting or looking to sharpen your skills, this course offers practical guidance for navigating one of the more challenging areas of exempt organization taxation.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize who must file and the reporting requirements for filing Form 990-T.

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Publication Date: May 2026

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Chapter 1: COMPLETING FORM 990-T

Chapter Objective

After completing this chapter, you should be able to:

- Recognize who must file and the reporting requirements for filing Form 990-T.

I. OVERVIEW

A. PURPOSE OF FORM 990-T

The purpose of Form 990-T is for an exempt organization to: (1) report unrelated business income; (2) figure and report unrelated business income tax liability; (3) report proxy tax liability; (4) 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; (5) request a credit for certain federal excise taxes paid or for small employer health insurance premiums paid; and (6) make an elective payment election under section 48D or section 6417.

B. WHO MUST FILE FORM 990-T

1. Organizations With Current Unrelated Business Taxable Income (UBTI)

The following entities must file Form 990-T.

- Colleges and universities of states and other governmental units, and subsidiary corporations wholly owned by such colleges and universities that have gross income of $1,000 or more from a regularly conducted unrelated trade or business. 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.
- Qualified tuition programs described under section 529 that have $1,000 or more of unrelated trade or business gross income.
- Qualified ABLE programs described under section 529A 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 describedunder 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.
6) Archer medical savings accounts (Archer MSAs) described under section 220.
7) Health savings accounts (HSAs) described under section 223.

2. Applicable Entities Making an Elective Payment Election

Section 6417 allows applicable entities to make an elective payment election to treat applicable credits as a payment of tax.

3. Applicable Entities

An applicable entity is defined as any of the following.

- An organization exempt from the tax imposed by subtitle A by reason of subchapter F of Chapter 1 of course 33751D of subtitle A.
- The government of any U.S. territory or political subdivision or instrumentality thereof.
- Any state, the District of Columbia, or a political subdivision or instrumentality thereof.
- The Tennessee Valley Authority.
- An Indian tribal government or a subdivision or instrumentality thereof.
- Any Alaska Native Corporation (as defined in section 3 of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m))).
- Any corporation operating on a cooperative basis that is engaged in furnishing electric energy to persons in rural areas.

a. Applicable credits

Applicable credits eligible for the elective payment election include:

- Qualifying advanced energy project credit (Form 3468, Part III),
- Clean electricity investment credit (Form 3468, Part V),
- Energy credit (Form 3468, Part VI),
- Advanced manufacturing production credit (Form 7207),
- Clean hydrogen production credit (Form 7210),

- Clean electricity production credit (Form 7211),
- Zero-emission nuclear power production credit (Form 7213, Part II),
- Clean fuel production credit (Form 7218),
- Renewable electricity production credit (Form 8835, Part II),
- Credit for alternative fuel vehicle refueling property credit (Form 8911, Part I),
- Carbon oxide sequestration credit (Form 8933), and
- Commercial clean vehicle credit (Form 8936, Part V).

3. Organizations With or Without Current UBTI

a. Elective payment election

Form 990-T filed by an applicable entity making an elective payment election with respect to one or more applicable credits, and eligible taxpayers making an elective payment election with respect to the advanced manufacturing investment credit under section 48D must complete and attach Form 3800, General Business Credit, as well as the required form(s) on which you compute each individual credit.

If filing Form 990-T solely to make the elective payment election, see Elective payment election only under Which Parts to Complete, later.

b. Proxy tax

Organizations liable for the proxy tax on lobbying and political expenditures, see Part II, Line 3, later, for a discussion of the proxy tax.

c. Other taxes or amounts

Organizations that are liable for other taxes (such as tax deferred under section 1291 (Form 990-T, Part II, line 4) or section 1294 (Form 990-T, Part III, line 4)), or organizations liable for other amounts due (or entitled to a refund of, or credit for other amounts), see a discussion of these items, later.

If your organization is required to file Form 990-T only because of these taxes or other amounts, see Other taxes under Which Parts To Complete, later.

d. Qualified opportunity investment (annual report)

Organizations that deferred a capital gain into a qualified opportunity fund (QOF) must file Form 990-T with the applicable Schedule D, Form 8949, and Form 8997 attached.

Each such organization must file Form 990-T with Form 8997 attached annually until the organization disposes of the investment.

C. ESTIMATED TAX PAYMENTS AND DEPOSITORY METHOD OF TAX PAYMENT

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. Don’t include the proxy tax when computing your estimated tax liability for 2025.

The organization must pay any tax due in full by the due date of the return without extension.

1. Electronic Deposit Requirement

The organization must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically. Generally, electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS).

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.

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.

2. 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.

3. Interest and Penalties

An 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 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 extensions) 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 extensions of time for filing) is subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or $525. The penalty won't be imposed if the organization can show that the failure to file on time was due to reasonable cause.

Late Payment of Tax

The penalty for late payment of taxes is usually ½ 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.

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 U.S. 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.

D. WHICH PARTS TO COMPLETE

1. Organizations with Unrelated Business Taxable Income

Organizations with UBTI must complete Form 990-T, and also a separate Schedule A (Form 990-T) for each separate unrelated trade or business. See Regulations section 1.512(a)-6. Complete all Schedules A (Form 990-T) first. See General Instructions Schedule A (Form 990-T), later.

a. 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 1 of course 33753D, 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 or for the first year a new corporation is added to a consolidated return, the title holding company must attach Form 1122, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return.

2. Organizations with No Unrelated Business Taxable Income

An organization with no UBTI that needs to file Form 990-T should complete and file Form 990-T only. Such an organization does not complete or attach Schedule A (Form 990-T) to its return.

a. Elective payment election only

Organizations that are filing with regard to making an elective payment election and have no unrelated business taxable income, including applicable entities (as defined

earlier) not subject to federal income tax and not otherwise required to file any annual tax or information return, must complete the following lines of Form 990-T.

- The heading area above Part I, except items B, C, E, J, K, and L.
- If the organization type in item G is “6417(d)(1)(A) Applicable entity,” then in Part II, enter -0- and check the box for “Tax rate schedule” on line 2 and enter -0- on line 7.
- If the organization type in item G is “501(c) corporation,” then in Part II, enter -0- on lines 1 and 7.
- If the organization type in item G is “501(c) trust,”“401(a) trust,” or “Other trust” then in Part II, enter -0- and check the box for “Tax rate schedule” on line 2 and enter -0- on line 7.
- If the organization type in item G is “State college/university,” then in Part II, enter -0- on lines 1 and 7.
- Part III, lines 6g, 7, 10, and 11.
- Signature area.

In addition, complete and attach Form 3800, and all forms required to compute each applicable credit.

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 J and K.
- Part II, lines 1, 3, and 7.
- Part III.
- Signature area.
- Attach a statement showing the proxy tax computation.

c. Other taxes

Organizations that are required to file Form 990-T only because they are liable for tax under section 1291 or tax previously deferred under section 1294, recapture taxes, the tax on a hospital organization’s non-compliant facility income, or other items listed in the instructions for Part III, line 4, must complete the following.

- The heading above Part I except items J and K.
- The applicable lines of Parts II and III.
- Signature area.