2013

Unrelated Business Income's Impact on Direct Public Support in the Nonprofit Sector

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Spring 2013

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Executive Summary

Nonprofits today are losing their traditional funding sources for a variety of reasons and are turning to nontraditional ways of finding resources to make sure their organization is able to sustain itself while still meeting its mission. One common non-traditional approach is engaging in unrelated business income activities. Since these activities are not related to a nonprofit's mission they are subject to taxation. Some question whether these activities help a nonprofit organization meet its mission.

A nonprofit seen not fulfilling its mission can be detrimental to that organization especially where its donors are concerned. If a donor does not support an organization's practices to diversify its revenue sources they might stop donating. This study will analyze whether a nonprofit's unrelated business income is negatively associated with the donations it receives.

An introduction of the problem is presented, followed by a literature review of the topics surrounding this analysis. These topics include social entrepreneurship, the IRS Form 990 and previous studies conducted on the unrelated business income tax. From this review I develop my research design for this analysis. The design and model are focused on a sample of nonprofits obtained from IRS Form 990 data in 2007. My dependent variable is public direct support and my main explanatory variable is unrelated business income. I control for seven other variables that have been shown in previous studies to have a significant relationship with direct public support.

The first regression analysis of these variables did not display significant results regarding unrelated business incomes negative association with direct public support. The second regression analysis, in which the unrelated business income variable is squared, did yield significant results. From these results it can be surmised that reporting unrelated business income may not have a significant negative relationship with direct public support but increasing amounts of this type of income is associated with a decreasing amount of direct public support. This analysis ends with a discussion of the limitations and recommendations for further research on this subject.

Introduction

Nonprofits are perceived as organizations that are created to benefit society and work towards helping those in need in their unique ways. However, can a nonprofit still be seen and operate this way if it takes on non-traditional approaches to obtain funding? Nonprofits over the years have been seeking out new forms of funding due to decreases in governmental support and to diversify their revenue sources.

One of these non-traditional methods is to engage in activities that produce unrelated business income. Unrelated business income is obtained through activities that are not related to a nonprofit's mission. Due to this, unrelated business income is not exempt from taxation. Nonprofits must pay this tax so as to not have an unfair advantage over those businesses in the private sector that might be practicing the same activities and are subject to the income tax.

Since unrelated business income can be seen as acting like a for-profit organization, this and other business like practices have come under scrutiny from many inside and outside the nonprofit sector including donors. Nonprofits are seen as organizations that adhere to a higher ethical code and engaging in business activities might tempt nonprofits away from that ethical code so as to make a profit. If a donor believes this to be true they would likely decrease or eliminate their funding all together. A donor who is looking to make an investment into the future of a nonprofit and finds that organization lacking especially where ethics are concerned would not want to finance its future.

The issue with this debate is that it is very difficult to successfully quantitatively or qualitatively study whether business activities actually hurt nonprofits' mission orientated ambitions. Many factors determine donations to a nonprofit and not all of them can be easily examined. Most studies on this topic focus in on a core issue surrounding either what affects donations or why nonprofits practice unrelated business income activities. I too have decided to focus my analysis on one issue to see if a nonprofit's unrelated business income has an impact on its donations.

I will be quantitatively studying this hypothesis by looking at the data gathered from the Internal Revenue Service (IRS) on a nonprofit's financial activities. This will help better understand if a nonprofit's income from unrelated business income activities has a significant negative association with donations.

Literature Review

Social Entrepreneurship

Nonprofits face increasing competition for financial resources due to decreased funding available and a growing nonprofit sector. This competition leads these organizations to search for ways to diversify their revenue sources so as to provide security if one source decreases.[1] These new methods include obtaining that funding through business-like activities or partnerships with corporations. These non-traditional ways of fundraising fall under the umbrella of social entrepreneurship which is the term used for private sector inspired activities that nonprofits pursue.[2]

Social entrepreneurship can be seen as unethical, especially when it involves nonprofits acting more like for-profits. Different stakeholders involved with these nonprofits, like donors or employees do not like the idea of the organization they support or rely on acting and looking more like a business. However there may be few other options for nonprofits in trying to balance their lack of funding with meeting their beneficiaries' needs.

The four types of social entrepreneurship that nonprofits practice come in the form of business ventures, cause-related marketing, licensing and corporate-nonprofit ventures.[3] Business ventures are those activities that nonprofits engage in to make a profit. These can range from charging fees for service to selling items or renting out buildings. These business activities can be related to the nonprofit's mission or unrelated. Related activities are exempt from taxation because they are seen to help that organization in meeting its mission. For example The YMCA charges fees for their gym membership so as to help provide other services to its clientele. Unrelated business activities are subject to the income tax. [4]

Cause-related marketing is when a corporation rallies behind a particular cause. They will partner with a nonprofit but only for a specified period of time.[5] For example a corporation that supports breast cancer awareness month will partner with a nonprofit for events for that month only. This method usually involves donations in financial and volunteer forms.

Corporate-nonprofit co-ventures takes cause-related marketing a step further by having an ongoing relationship between a nonprofit and corporation.[6] These collaborations are mutually beneficial with both the nonprofit and corporation benefiting. These co-ventures are becoming increasingly common as corporations see the positives from partnering with and donating to nonprofits.

The last social entrepreneurship method comes in the form of licensing. Nonprofits can sell the rights to their trademarks. This method is usually not mission-related and is categorized as unrelated business income and the nonprofit must pay taxes on it.[7]

These four methods have been scrutinized by many scholars on whether or not they are helpful or harmful to the nonprofits utilizing them. The skeptics of social entrepreneurship say these methods cause mission drift by these nonprofits thinking more about how to make a profit instead of working towards its mission. Also social entrepreneurship could change the way the nonprofit's stakeholders feel towards that organization. The employees, donors, media, board members and others might not agree with social entrepreneurship methods that the organization is pursing.[8]

Social entrepreneurship does have its benefits as well. These methods are ways to help diversify revenue sources. Revenue diversification is a strategy that many nonprofits are utilizing so as to be better prepared if one revenue source suddenly becomes unavailable. This way, a nonprofit does not have to rely on one or two revenue sources like a grant or major donor. [9]

A point that all parties in the debate agree on is that pursuing social entrepreneurship methods requires a lot of research and planning. A nonprofit must be able to put the time into finding out if a business venture or corporate-nonprofit co-venture will be a benefit or threat. If the nonprofit does not invest the resources needed to research the given social entrepreneurship methods it could turn out to be detrimental to their organization.

In this analysis I will focus on the first type of social entrepreneurship: business ventures. I will focus on unrelated business ventures so as to utilize the data on these activities that nonprofits must report to the IRS. Organizations that seek tax exempt status or 501 (c) status as it is termed by the IRS must complete the IRS Form 990.

Unrelated Business Income and the IRS Form 990

For a nonprofit to obtain a tax-exempt status it must file a Form 990 or 990 Z to the IRS's Division on Tax-Exempt and Government Entities.[10] A Form 990 Z is a shortened version of the Form 990 and can be filled out in place of the Form 990 by a nonprofit that has total assets of less than $500,000 per year.[11] This division of the IRS has the authority to grant or revoke a nonprofit's exempt status based on its yearly activities. These activities include total revenues, total expenditures, types of programs, total lobbying, highest salaries and unrelated business income to name a few.

A nonprofit seeks to obtain tax-exempt status for two main reasons. First, this enables it to accept gifts that are tax-deductible for the donors. Second it exempts the nonprofit from taxes on things such as income and property.[12] Not all revenue is tax exempt when those revenues are earned through unrelated business income practices.

Unrelated business income is the income earned by a nonprofit that is reported on its Form 990 and is subject to the unrelated business income tax (UBIT). There are three requirements for UBIT activities, including that it is a business, it is regularly carried out and it does not relate directly to a nonprofit's mission.[13]

UBIT was introduced to the Form 990 in 1950 to discourage but not inhibit nonprofits from undergoing business activities that would compete with tax paying organizations.[14] Since nonprofits are exempt from the income tax, if it were to start a business that is offered by the private sector it would have an unfair advantage, because unlike its private sector counterparts, it does not have to pay the income tax.

Previous UBIT Studies

In James R. Hines Jr. article, "Nonprofit Business Activity and the Unrelated Business Income Tax," he studied which nonprofits actually practice unrelated business income activities. He found that nonprofits prefer not to undertake UBIT activities unless they are driven due to financial need and that these nonprofits tend to be larger in size.[15] UBIT activities are not practiced widely across the nonprofit sector due to the major deterrent of being taxed. Nonprofits find other ways to diversify their funds like governmental grants, fees for service or diversifying their fundraising strategies.

Nonprofits that do decide to practice unrelated business income activities can allocate their costs so as to lessen the tax burden of their unrelated ventures. In Robert J. Yetman's article, "Tax-Motivated Expense Allocations by Nonprofit Organizations" he completed the first large-scale empirical study on UBIT.[16] He examined whether nonprofits allocate costs to taxable activities to make less profit on them so as to have less income to be taxed.

While he found this to be true for the medical and educational nonprofits in his data; he did not find evidence that charitable nonprofits engaged in these activities.[17] This study is important to consider when analyzing my data set for those nonprofit managers who already engage in unrelated business income activities. Allocating costs should be a consideration for these managers to relieve the tax burden that the government has placed on unrelated business like activities. This can be helpful also to those nonprofits considering unrelated business income activities as an option to diversify their funds. With the changing economic climate, nonprofits are looking more to social entrepreneurship and business activities to create a more stable financial base for their organizations to sustain themselves in the long term.

Research Design

Design and Method

Unrelated business income is a way for a nonprofit to diversify its funding base so as to successfully meet its mission. Critics say that it does the opposite by taking away focus from the organization's mission because of the nonprofit's use of business practices. An important stakeholder group whose opinion matters greatly to nonprofits on this issue is their donor base. If donors do not believe the organization is focused on its mission due to unrelated business practices they might cease their funding. However, what percentage of donations is really at risk?

To help answer this question, my analysis will look at the impact of unrelated business income on direct public support. Through this analysis I am hoping to contribute to research on whether a nonprofit earning more money from these unrelated business income practices actually decreases its funds in other revenue generating areas like direct public support. This would be of great interest to nonprofits that are looking to try to diversify their funding base while still keeping their existing donors and recruiting prospective donors.

The units of analysis are 501 (c) nonprofits in the United States. I will be looking at IRS Form 990 and 990 Z data from 2007. The IRS changed the format and questions of the Form 990 in 2008. Due to this, Form 990 data from 2007 is the most current data that can be obtained and analyzed until the new and old Form 990s can be made compatible to compile into a data set.

The sample is made up of 25,803 nonprofits nation-wide. The sample contains 100% of nonprofits with total assets of over $50 million and a random sampling of small and medium size nonprofits that have assets less than $50 million. I am using this particular sample because the majority of nonprofits who report unrelated business income are wealthier organizations.[18]

501 (c) Nonprofits are broken up by categories. The majority of this sample, 18,086 entities are 501 (c) 3 organizations or those nonprofits created for charitable purposes. The rest of the sample consists of 501 (c) 4-9 organizations, 7,717 entities which include a variety of organizations like social clubs and business leagues.[19] All 501 (c) organizations are tax-exempt and are able to practice unrelated business income. The focus of this study however is primarily on 501 (c) 3 charitable nonprofits.

Both unrelated business income and direct public support are reported on the Form 990. The unrelated business income will be my main explanatory variable and direct public support will be my dependent variable. Direct public support includes donations and contributions received directly from individuals and foundations. [20]

Other explanatory variables that will be considered and controlled for are indirect public support, total revenues, program service fees and lobbying expenditures. The Form 990 T and nonprofit industry will be used as dummy variables. The IRS uses the National Taxonomy of Exempt Entities (NTEE) codes that categorize the organizations in 26 different industries.[21] These supplementary explanatory variables are being included due to their various mentions in academic articles for their impact on direct public support. The chart below gives the Form 990 location and definition of the explanatory and dummy variables.

Table A: Independent Variable Information

Explanatory Variable	**Form 990 Location**	**Definition**
Unrelated Business Income	Part VII, Line 104	The amount of earned income not related to the organization's mission.
Indirect Public Support	Part I, Line 1b	Contributions received through governmental grants or from affiliated organizations
Total Revenue	Part I, Line 12	Includes support, program fees, membership dues, special events, rentals, gross sales, etc.
Program Service Revenue	Part I, 2	Revenues earned from fees charged for tax-exempt services
Total Lobby Expenditures	Part VI-A, Line 38	Lobbying Expenditures that influence public opinion (grassroots lobbying) and lobbying expenditures to influence a legislative body (direct lobbying).
Form 990 T (dummy variable)	Part VI, Line 78b	Required if organization has reported more than $1000 in unrelated business income
Industry Code (dummy variable)	Part III	The activities performed by the organization that guarantees them their tax-exempt status categorized into 26 categories.

Chart data acquired from www.guidestar.com[22] *and www.Irs.gov*[23]

The structure of this analysis will be a single cross-sectional design. I will be looking at tax exempt nonprofits' Form 990 information over the course of the year 2007. I will run a standard regression with robust standard errors, to see if a relationship exists between unrelated business income and direct public support controlling for the various explanatory variables. This type of regression accounts for heteroskedasticity which is the variance within the explanatory variables. I would expect that organizations with large amounts of unrelated business income experience a decrease in direct public support. Also it is anticipated that those that file a Form 990 T have less direct public support than those who do not file the form.

Validity Issues

The validity of this quantitative approach is vulnerable in two significant ways. First the internal validity of my analysis is threatened due to omitted variables in my study. There are many other explanatory variables from the Form 990 that I could have considered in my study. I focused on those that had shown in related studies to impact direct public support so as make my analysis manageable. Variables that are not accounted for in the Form 990 data could also affect my internal validity. These could include the economic climate for the year this data was gathered or if a nonprofit saw increased competition in its area of practice.

The second major threat to my analysis is an external validity issue. I only used one year of data instead of multiple years and also the data is six years old. I decided to use this data because it is the most recently compiled data available on this issue, but it is not able to compare different years of Form 990 data. It needs to be taken into account when analyzing my results that it is displaying only a snap shot of one year of data.

Both my internal and external validity are assisted since a submitted IRS Form 990 is required by all nonprofits who are seeking tax-exempt status. Therefore those that have tax exempt status under the 501 (c) status and participate in unrelated business activities must report this to the IRS or face legal action. The Form 990 data is the most accurate data one can use when looking at the financials for 501 (c) nonprofits.

I will not encounter ethical or human subject issues with my quantitative approach since the information on the Form 990 is legally required from all tax-exempt nonprofits in the United States and is made available to the public.

Results and Discussion

Regression Results

Table B below reports the descriptive statistics for the non-dummy variables in this analysis. It is interesting to look at these numbers due to their large amounts. The nonprofit sector can be seen as non-contributing members to the economy however this sector has the third largest workforce in the United States.[24] It is a very important part of our economy that's impact tends to be overlooked.

Table B: Descriptive Variable Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Direct Public Support	3,617,723.00	25,000,000.00	-96,560.00	1,180,000,000.00
Unrelated Business Income	298,075.50	3,165,140.00	-54,400,000.00	189,000,000.00
Indirect Public Support	1,057,465.00	46,700,000.00	-180,322.00	6,690,000,000.00
Total Revenues	53,900,000.00	302,000,000.00	22,600,000.00	29,700,000,000.00
Total Program Service Fees	39,600,000.00	265,000,000.00	-83,000.00	29,300,000,000.00
Total Lobbying Expenditures	4,250.46	45,343.65	0	3,366,498.00

Total Observations: 25,803

Based on my initial regression there is not a significant relationship between unrelated business income and direct public support. The unrelated business income p-value for this regression is .221 which is above the .05 significance level that is the standard significance a p-value needs to be at or below so as to be considered noteworthy. However all the other explanatory variables I accounted for had significant p-values. This supports my assumption that these variables have a significant impact on direct public support.

Below in Table C are my initial regression findings. It shows the explanatory variables except unrelated business income all have significant p-values and t-statistics. For this analysis I am accepting t-statistics' significance if they fall below -2 or above 2. This correlates with a .05 p-value; the higher the t-statistic the lower the p-value and vice versa. For example indirect public support has a statistically significant negative relationship with direct public support. This means that for every dollar of indirect public support a nonprofit gets they lose $0.194 in direct public support.

The industry dummy variable is very important to my results. I first ran a regression without industry as a dummy variable and found unrelated business income having a significant relationship with direct public support. After adding in the industry dummy variable, it was not significant.

This finding is not surprising due to the assumption that the goals and practices of a nonprofit differ greatly within each industry and have a major effect on how that nonprofit conducts its day-to-day business including soliciting and acquiring donations. The 13 of the 26 industry variables had a significant relationship with direct public support due to their p-value of less than .05. For example the arts, culture and humanities category (A) had a significant positive relationship with direct public support with a p-value below 0.05. For every nonprofit who is in that category their direct public support on average is $2,788,001.00, holding all other variables constant.

The other dummy variable, the Form 990 T shows a significant p-value and a positive coefficient. This can be confusing to interpret since unrelated business income is not significant and when a nonprofit reports unrelated business income they must fill out a Form 990 T. This can be explained by the assumption that those nonprofits that do not report unrelated business income usually have more donations. Therefore this finding is skewed because I did not control for things that could affect this variable since it is not my main explanatory variable.

Table C: Initial Regression Results

R010 (Direct Public Support)	**Coefficient**	**t-statistic**	**p-value**
Unrelated Business Income	-.1328	-1.22	0.221
Indirect Public Support	-.1938	-7.55	p<0.0001
Total Revenues	.1697	7.74	p<0.0001
Program Service Revenue	-.1721	-7.55	p<0.0001
Total Lobbying Expenditures	80.5448	2.43	0.015
Form 990 T	2,229,081	4.73	p<0.0001
A- Arts, Culture and Humanities	2,788,001	6.05	p<0.0001
B- Educational Institutions	3,214,918	6.36	p<0.0001
C- Environmental Quality Protection, Beautification	3,523,766	2.01	0.044
D – Animal Related	705,725.1	0.79	0.428
E- Health – General and Rehabilitative	-608,899.7	-1.85	0.065
F- Mental Health, Crisis Intervention	700,956.2	0.49	0.626
G – Disease, Disorders and Medical Disciplines	4,897,367	1.62	0.106
H- Medical Research	-213,780.1	-0.09	0.929
I – Crime, Legal Related	-353,095.9	-0.82	0.413
J – Employment, Job Related	-1,688,313	-6.24	p<0.0001
K-Agriculture, Food, Nutrition	2,311,206	1.26	0.207
L –Housing, Shelter	-33,449.64	-0.21	0.83
M- Public Safety, Disaster Preparedness and Relief	-212,205	-2.43	0.015
N – Recreation, Sports, Leisure, Athletics	-1,711,801	-6.36	p<0.0001
O- Youth Development	1,225,443	2.45	0.014
P – Human Services	289,356.9	1.31	0.189
Q- International, Foreign Affairs and Nat. Security	27,600,000.00	4.8	p<0.0001
R- Civil Rights, Social Action, Advocacy	586,160.3	0.26	0.796
S- Community Improvement, Capacity Building	-702,750.3	-2.9	0.004
T – Philanthropy, Volunteerism and Grant making	2,269,655	2.83	0.005

U –Science and Technology Research Institutes	-6,781,450	-1.86	0.062
V – Social Science Research Institutes	287,451.2	0.13	0.896
W- Public, Societal Benefit	-448,039	-0.74	0.462
X- Religion, Spiritual Development	1,323,291	2.86	0.004
Y –Mutual/Membership Benefit Organizations, Other	-1,465,360	-6.96	p<0.0001
Z- Unknown	-4,266.965	-7.82	p<0.0001

NTEE codes acquired from www.guidestar.com[25] Observations = 25,803

Since my first regression did not yield significant results regarding unrelated business income's association with direct public support, I decided to see if an increased amount of unrelated business income might have an impact. To do this I squared the unrelated business income to see if doubling the amount of unrelated business income each nonprofit in the sample had would have a significant outcome on direct public support. This is based on the assumption that those organizations that engage in more unrelated business income do not have need for as much donations or do not get a lot of donations and therefore must engage in unrelated business activities that provide an increased amount of income.

I ran another regression with robust standard errors, replacing my original unrelated business income variable with its squared value. Usually when a squared amount of a variable is used the original variable is used as well. I decided not to do this due to the high correlation of .843 between unrelated business income and its squared amount. Since these two have a high correlation it indicates that a change in one is very similar to a change in the other. Therefore if I included both these variables it could skew my results due to this high correlation.

I found that the squared amount of unrelated business income does have a statistically significant negative relationship with direct public support. The p-value was 0.049 which is under the significant level of 0.05. However the magnitude of the relationship is small. For every one-thousand dollar increase in unrelated business income that a nonprofit generates, direct public support goes down $0.00089. This is quite a small amount but still a significant finding. It seems that while a nonprofit reporting unrelated business income does not always relate to donations, greater amounts of it can. The results of this regression are in Table D below. As you can see the other explanatory variables also remained statistically significant. As in the initial regression.

Table D: Unrelated Business Income Squared Regression Results

R010 (Direct Public Support)	Coefficient	t-statistic	p-value
Unrelated Business Income Squared (UBI2)	-0.00000000089	-2.95	0.049
Indirect Public Support	-.1932	4.51	p<0.0001
Total Revenues	.1698	7.73	p<0.0001
Program Service Revenue	-.1723	-7.55	p<0.0001
Total Lobbying Expenditures	80.5964	2.43	0.015
Form 990 T	2,120,117	4.51	p<0.0001
A- Arts, Culture and Humanities	2,787,981	6.04	p<0.0001
B- Educational Institutions	3,214,900	6.38	p<0.0001
C- Environmental Quality Protection, Beautification	3,523,753	2.01	0.044
D – Animal Related	705,722.1	0.79	0.428
E- Health – General and Rehabilitative	-608,835.9	-1.8	0.072
F- Mental Health, Crisis Intervention	700,946.7	0.49	0.626
G – Disease, Disorders and Medical Disciplines	4,897,394	1.62	0.105
H- Medical Research	-213,723.2	-0.09	0.922
I – Crime, Legal Related	-353,114.9	-0.82	0.413
J – Employment, Job Related	-1,688,326	-6.25	p<0.0001
K-Agriculture, Food, Nutrition	2,311,206	1.26	0.207
L –Housing, Shelter	-33,460.31	-0.21	0.831
M- Public Safety, Disaster Preparedness and Relief	-212,210.9	-2.42	0.015
N – Recreation, Sports, Leisure, Athletics	-1,711,862	-6.2	p<0.0001
O- Youth Development	1,225,432	2.45	0.014
P – Human Services	289,337.9	1.31	0.189
Q- International, Foreign Affairs and Nat. Security	27,600,000.00	4.8	p<0.0001
R- Civil Rights, Social Action, Advocacy	586,125.1	0.26	0.796
S- Community Improvement, Capacity Building	-702,768.4	-2.9	0.004
T – Philanthropy, Volunteerism and Grant-making	2,269,631	2.84	0.005
U –Science and Technology Research Institutes	-6,781,235	-1.88	p<0.0001
V – Social Science Research Institutes	287,465.9	0.13	0.896
W- Public, Societal Benefit	-448,031.7	-0.74	0.462
X- Religion, Spiritual Development	1,323,303	2.85	0.004
Y –Mutual/Membership Benefit Organizations, Other	-1,465,340	-6.88	p<0.0001
Z- Unknown	-4,266.96	-7.64	p<0.0001

Observations: 25,803

To put this finding in perspective refer to Table E below. This table shows what happens when an increasing amount of unrelated business income is earned in relation to the negative coefficient found to have a significant impact in my regression analysis, while holding all other variables constant. Again it shows that only unrelated business income in large amounts affects direct public support. The maximum amount of unrelated business income for this sample (refer to Table B) is $189,000,000.00. For an organization that has this high of an amount of unrelated business income, there would be a significant negative impact on its direct public support.

Table E: Increasing Amounts of Unrelated Business Income's Impact on Direct Public Support

Regression Coefficient	Unrelated Business Income	UBI^2	Change in Direct Public Support
-0.00000000089	1	1	-0.00000000089
-0.00000000089	10	100	-0.000000089
-0.00000000089	100	10,000	-0.0000089
-0.00000000089	1,000	1,000,000	-0.00089
-0.00000000089	10,000	100,000,000	-0.089
-0.00000000089	1,000,000	1,000,000,000,000	-890
-0.00000000089	10,000,000	100,000,000,000,000	-89,000

After finding that the squared amount of unrelated business has a significant negative relationship with direct public support my next step was to analyze if this same model applied to just those nonprofits who filed a Form 990 T. Of the 25,803 nonprofits in this sample, 19,852 did not report a Form 990 T, which indicates they did not report unrelated business income on their Form 990 in amounts above $1,000.00.

Due to this I ran a regression of the 5,951 nonprofits who did file a Form 990 T. This regression found unrelated business income had no significant impact on direct public support among those who reported the Form 990 T. The p-value of 0.108 is above the 0.05 significance level however this significance should be cautiously interpreted. Even though it is above the required significance level it is close and rejection could lead to an error bias of mistakenly rejecting significance when in fact it may be significant.

In 2007 the p-value was .108 for those who filed a Form 990 T, and I would assume with the increased emphasis on nonprofits diversifying their funding sources since the 2008 recession it could make this closer to the p-value 0.05 significance when more recent data sets of Form 990 data can be examined. With data from years after 2007 it can be analyzed if more nonprofits reported unrelated business income and if that had a negative association with direct public support.

The other explanatory variables all remained significant, however total lobbying expenditures had a p-value of 0.58 which increased from the first two regression's p-values of .015. This is very close to not being significant, but it is interesting that the significance level of this one explanatory variable becomes much less significant when looking at only those nonprofits who filed the Form 990 T. This finding could mean that those who report unrelated business income have less need for government intervention and therefore less use for lobbying.

The analysis in Table F below of just those nonprofits who report a Form 990 T is important from a management perspective for those organizations who already report unrelated business income. It can help them better understand how unrelated business income affects their donations. An assumption a manager can gather from my analysis is that unrelated business income does not have a significant impact on direct public support but that they should still be cautious when making this decision due to the validity threats to this analysis.

Table F: Unrelated Business Income Squared (Only Nonprofits who Filed a 990 T Form) Regression Results

R010 (Direct Public Support)	Coefficient	t-statistic	p-value
Unrelated Business Income Squared (UBI2)	-0.000000000793	-1.61	0.108
Indirect Public Support	-.2006	-6.58	p<0.0001
Total Revenues	.1745	6.65	p<0.0001
Program Service Revenue	-.1764	-6.49	p<0.0001
Total Lobbying Expenditures	83.3323	1.90	0.058
A- Arts, Culture and Humanities	9,225,522	0.97	0.33
B- Educational Institutions	10,300,000	1.08	0.282
C- Environmental Quality Protection, Beautification	14,200,000	1.19	0.235
D – Animal Related	4,148,844	0.5	0.617
E- Health – General and Rehabilitative	1,203,231	0.13	0.899
F- Mental Health, Crisis Intervention	414,379.6	0.04	0.966
G – Disease, Disorders and Medical Disciplines	25,600,000	1.75	0.08
H- Medical Research	-9,496,324	-0.61	0.544
I – Crime, Legal Related	472,610.7	0.05	0.961
J – Employment, Job Related	-3,781,462	-0.39	0.693
K-Agriculture, Food, Nutrition	463,899.5	0.05	0.962
L –Housing, Shelter	1,334,872	0.14	0.891
M- Public Safety, Disaster Preparedness and Relief	-285,288	-0.03	0.976
N – Recreation, Sports, Leisure, Athletics	604,559	0.06	0.95
O- Youth Development	13,000,000	1.05	0.296
P – Human Services	3,822,350	0.4	0.69
Q- International, Foreign Affairs and Natl. Security	86,800,000	2.29	0.022
R- Civil Rights, Social Action, Advocacy	Omitted	Omitted	Omitted
S- Community Improvement, Capacity Building	692,454.8	0.07	0.943
T – Philanthropy, Volunteerism and Grant-making	4,303,989	0.44	0.661
U –Science and Technology Research Institutes	-12,100,000	-0.96	0.338
V – Social Science Research Institutes	337,135.8	0.03	0.976
W- Public, Societal Benefit	1,674,368	0.18	0.86
X- Religion, Spiritual Development	10,500,000	1.07	0.286
Y –Mutual/Membership Benefit Organizations, Other	-2,047,016	-0.21	0.834
Z- Unknown	-1,401,149	-0.14	0.885

Observations= 5,951

Since I am primarily interested in those charitable nonprofits or 501 (c) 3 organizations I conducted these same regressions excluding those 501 (c) 4-9 organizations to see if it produced different results. The results from these regressions were comparable to the results discussed above. It can then be inferred from this data that unrelated business income and its relationship with direct public support is consistent across the categories of 501 (c) nonprofits.

Limitations

The first limitation of this data is due to the year it was gathered. As previously mentioned this data is from 2007, which is one year before the economic recession of 2008. The economic downturn affected the nonprofit sector's direct and indirect public support. It encouraged many nonprofits to look for ways to diversify their funding sources so as to not rely on one major source that could disappear with another event similar to the 2008 economic recession. With more time and resources, I would like to do an analysis of Form 990 data from 2007 to 2011 to account for the changes in the economy and funding sources. This type of analysis would also allow me to isolate changes in donations over time, and test whether these can be explained by changes in unrelated business income.

Another limitation to my analysis is the sample size I used. It is a large sample size of over 25,000 nonprofits, but it is still only about 5% of the total nonprofits who reported a Form 990 in 2007. During that year, 313,121 nonprofits reported a Form 990 or 990 Z to the IRS. This sample size is quite small given the overall population size of the unit I am studying.

Along with this the dependent variable, direct public support, includes both individual donations and foundations grants. I am assuming in this analysis that these two types of funding sources would be affected similarly by unrelated business income activities. If I had more time I would like to break those two different kinds of support into two separate variables to see if in fact this assumption is correct.

Lastly, another limitation to my analysis is the factors that cannot be accounted for in the Form 990 data. These could include such things as increased or decreased competition for funding in a nonprofit's area of concentration, reputation issues, state legislature regulations or laws and relationships or partnerships with other nonprofits.

The nonprofit sector is also very diverse within its given industry. I accounted for the 26 categories that the IRS uses to classify 501 (c) organizations. Within each of these main categories are sub groupings and further breakdowns within these as well. For example the education category can include many diverse organizations from daycares to large universities. The 26 NTEE codes are useful however there are many unique nonprofits that these broad categories cannot account for.

Recommendations

On doing this analysis with a sample of 2007 Form 990 data it can be assumed that practicing unrelated business income has little to no impact on direct public support. My recommendation is that a nonprofit should practice unrelated business income as long as it helps that organization reach its mission. It must do extensive research to see if it will be beneficial for that organization to engage in these types of activities, but I definitely think nonprofits should consider it as a way to diversify their funding sources.

Further research is needed on an increased amount of the Form 990 data so as to get a more detailed analysis of the relationship between unrelated business income and direct public support. There are two options to obtain this type analysis since the data set I used is the most recently compiled from the IRS. First, one could wait until the data from the Form 990 of 2008 and beyond is available in the format compatible to the 2007 form so as to include it in a data set. This way multiple years could be studied and similar regressions could be run to see if it changes my results.

Second, the IRS makes every nonprofit's Form 990 information available to the public so This data could be manually entered or a computer program could be used to compile this data into a data set and then similar regressions run. I would endorse the former recommendation over the latter due to the large amount of time it would take to compile this data either manually or with a program.

Conclusions

Unrelated business income is still a fairly under-utilized tool of social entrepreneurship. With this analysis I strived to help determine if it was a tool that impacted the amount of direct public support that a nonprofit receives. My findings suggest that reporting unrelated business income does not significantly impact the amount of direct public support a nonprofit collects. However increasing amounts or larger amounts of unrelated business income does negatively impact the amount of direct public support by a small amount.

From these findings we can assume one of two things. First, nonprofits do not practice unrelated business income activities often enough to have a significant impact on donations. This is supported in the literature that already exists which shows not many in the sector report unrelated business income.

Second, is that unrelated business income does not have a significant impact on donations unless practiced in large amounts. This would indicate that this type of business activity is a good alternative for nonprofits to consider when researching ways to diversify funding sources.

If a nonprofit is interested in pursuing revenue generated by unrelated business income, one conclusion that I strongly endorse is a major amount of research and planning needs to go into this area of revenue diversification before a decision is made. The literature I have reviewed strongly supports this conclusion. Before a nonprofit makes a decision about pursuing unrelated business income practices or any other type of social entrepreneurship activity, it must first research to see if it is in the best interest for that organization to fulfill or work toward its mission. If the organization's leaders confirm this alignment, then that nonprofit needs a plan that will benchmark and measure this decision through implementation. This ensures that nonprofit will remain on track to not just benefit their clients but also to continue to focus on the mission and goals of that organization.

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End Notes

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