

NONPROFIT ORGANIZATIONS IN AMERICA: AN
EXAMINATION OF INFORMATION RETURN FILINGS
WITH IRS

John P. Sullivan and Keith Gilmour
Internal Revenue Service

This paper discusses nonprofit organizations that have received tax-exempt status from the Internal Revenue Service. Tabular summaries are provided from information (and related) returns filed for 1975, 1977, and 1978 [1]. Some summary data for 1946 [2] are also included to provide a long-range perspective on the growth of these organizations in terms of numbers and receipts. The most comprehensive data in this paper are shown for Tax Year 1975. (Unless otherwise specified, the tabulations and the text discussion refer only to those exempt organizations filing Forms 990, and do not include private foundations and farmers' cooperatives which file Forms 990-PF and 990-C, respectively.)

There are six main sections to the paper. Section 1 contains a discussion of the background on tax law. Section 2 deals with historical trends of exempt organizations between 1946 - 1975. Section 3 shows financial concentration data. Section 4 is the conclusion and future studies. Section 5 shows acknowledgements, notes and references and Section 6 contains basic tables.

1. BACKGROUND ON TAX LAW

Congress has historically accorded special privileges to organizations that engage in charitable, educational, religious and certain other "not-for-profit" activities. The exemption from income tax, as well as the deduction from income allowed to contributing individuals and businesses, have been the major fiscal incentives Congress has provided to encourage such activities.

Provisions of the 1913 Federal tax law (as well as succeeding Federal tax laws enacted by Congress) exempted from taxation income of certain organizations which, in the absence of such exemption, would have been required to pay tax upon items otherwise constituting taxable income. The first year that taxpayers could make contributions to these "tax-exempt" organizations and deduct those contributions from their income was 1917. Since income tax rates were being raised to help pay World War I defense expenditures, Congress felt that voluntary contributions to charitable organizations might decline unless a tax incentive was provided.

Many State governments enacted legislation similar to the federal legislation granting tax-exempt status to the same types of organizations. Some of the other benefits enjoyed by certain tax-exempt organizations

include reduced postal rates for publications and mail solicitations, State retail sales tax exemption, and State property tax exemption. Also, the federal government provides certain nonprofit organizations with surplus food products, particularly for overseas philanthropy, and even, in some cases, gifts of government surplus property.

Prior to 1950, Federal Courts had held that the source of an exempt organization's income was inconsequential to the determination of its exempt status; it was the ultimate use of the income that was important [3]. However, investigations and Congressional hearings revealed that certain organizations were involved in "profit making" schemes (essentially using their tax-exempt status as a means to engage in income producing activities not related to their exempt purpose). As a result, Congress enacted (as part of the Revenue Act of 1950) a tax on the unrelated business income of certain types of tax-exempt organizations. The Tax Reform Act of 1969 extended these provisions to include all exempt organizations except for certain corporations organized under an Act of Congress.

The tax-exempt status of an organization does not assure that individuals or businesses making contributions to that organization may deduct the contributions from their income for tax purposes. Carrying out charitable purposes does not assure that an organization has tax-exempt status. These are two common misconceptions regarding nonprofit organizations [4].

Generally, individuals or businesses may deduct from their income contributions to the following types of tax-exempt organizations: a State, a U.S. possession, a Community Chest, a private foundation, a war veterans organization, a church or other religious organization, a nonprofit hospital, most educational organizations, a nonprofit volunteer fire company, a civil defense organization, a domestic fraternal society (if the contributions are to be used for charitable purposes), and a nonprofit cemetery company [5].

2. SOME HISTORICAL TRENDS

Until the 1970's, the only detailed IRS statistical studies of the exempt organizations sector (including farmers cooperatives) were those made in the 1940's [2]. A separate Statistics Division publication, on farmers cooperatives, a subset of tax-exempt organizations was released for 1963, [6]. A first time report on private foundations for

1974-78 has recently been released by the Statistics Division [7]. Data from this latter report are one of the sources used in the next paper at this session [8].

This section of the paper will discuss historical data for exempt organizations between 1946 - 1975.

Total Receipts

Table 1 shows that for 1946 a total of 93,458 returns were filed by tax-exempt organizations and that they reported total receipts of \$4 billion. Farmers cooperatives are excluded from the 1946-1975 comparison since no data for 1975 are available.

For 1975, tax-exempt organizations (excluding farmers cooperatives) filed 247,086 returns and reported total receipts of \$118 billion.

Exempt Organizations Excluding Private Foundations and Farmers Cooperatives

The top five types of organizations in terms of returns filed for 1975 were: charitable, religious, educational and scientific organizations (hereafter referred to as "charitable")-44 percent, labor, agricultural, and horticultural organizations (hereafter referred to as "labor")-11 percent, civic leagues, social welfare and local associations of employees (hereafter referred to as "civic leagues")-11 percent, social and recreational clubs (hereafter referred to as "social")-7 percent, business leagues, chambers of commerce and real estate boards (hereafter referred to as "leagues")-7 percent. These five types of organizations represented 81 percent of all returns filed and accounted for 84 percent of total receipts. It is interesting to note that all of the preceding organizations except "leagues" were in the top five types of organizations for returns filed in 1946.

"Charitable" organizations received 58 percent of total receipts for all organizations in 1975 and "civic leagues" received 17 percent. None of the other prominent types of tax-exempt organizations received more than 4 percent of total receipts. For 1946, "Charitable," organizations received 30 percent of total receipts, mutual savings banks-17 percent, "labor"-12 percent, "Civic leagues"-9 percent, "leagues"-7 percent, "social"-7 percent, Corporations organized under an Act of Congress-7 percent, and state chartered credit unions-6 percent. None of the remaining tax-exempt organizations received more than 2 percent of total receipts.

Dues and assessments were largest for "civic leagues" in 1975-- about 44 percent of dues and assessments for all organizations. Contributions, gifts and grants were largest for "charitable" organizations--84 percent of the total received by all organizations. As was the case

in 1946, these "charitable" organizations received the largest percentage of contributions, gifts and grants since they were, in general, the only types of organizations that businesses and individuals could contribute to and deduct the contributions from their income.

Exempt private foundations included in table 1 (see footnote 1) are shown as part of 501(c)(3) organizations. (Until 1969, private foundations were never separately defined in the Internal Revenue Code although there was a general notion of what these organizations were.) Private foundations filed 26,889 returns and reported total receipts of \$3.3 billion for 1974. "Foundation" data were not tabulated separately for 1946.

3. FINANCIAL CONCENTRATION DATA

Tables 2 and 3 show selected income statement and balance sheet items by size of assets/receipts.

Based on table 2, on the average (1975, 1977 and 1978) approximately 40 percent of the returns were filed by organizations with asset holdings under \$25,000, while organizations with assets of \$1,000,000 or more filed 10 percent of the returns, but held 92 percent of total assets. These latter organizations also had the highest concentration of total receipts (86 percent), the greatest amount of contributions received (70 percent), and expended the largest amount of all direct fees for soliciting contributions (48 percent).

Based on table 3, on the average (1975, 1977 and 1978), approximately 65 percent of the returns were filed by organizations with receipts under \$100,000; organizations with receipts of \$1,000,000 or more filed less than 8 percent of all returns, but had 88 percent of all receipts. These latter organizations also had the greatest amount of contributions received (77 percent), held the largest amount of all assets (86 percent) and expended the largest amount of all direct fees for soliciting contributions.

"Sales and other receipts" (exclusive of dues, assessments, contributions, gifts, and grants) comprised the largest component of total receipts for all years. This item represented 65 percent of total receipts in 1975, 72 percent in 1977, and 75 percent in 1978. "Contributions, gifts and grants" represented 18 percent of total receipts in 1975, 14 percent in 1977, and 13 percent in 1978. "Dues and assessments" represented 17 percent of total receipts in 1975, 14 percent in 1977, and 12 percent in 1978.

Organizations with receipts of \$10 million or more accounted for over 60 percent of total receipts for all years. These organizations had 60 percent of all receipts in 1975, 68 percent in 1977, and 72 percent in 1978. The same organizations had the largest amount of total assets for all years. In 1975, they held 55 percent of all assets, 64 percent in 1977, and 69 percent in 1978.

4. CONCLUSION AND FUTURE STUDIES

The decades since the end of World War II have witnessed a tremendous growth in tax-exempt organizations. In the period 1946-1975, exempt organization filings have almost tripled, while receipts have grown, from \$4 billion to \$118 billion. Judging from past growth, the nonprofit sector will continue to represent a significant part of the economy.

For Tax Years 1982 - 1985 the Statistics Division plans to publish selected income statement and balance sheet data from the Exempt Organization Master File for private foundations and other tax-exempt organizations separately. These data will be supplemented by detailed data edited from a small sample of private foundations and other tax-exempt organizations with large asset holdings [9]. A new Statistics Division publication, The SOI Bulletin, will be the primary source for these data.

Data Limitations

Data for 1977 and 1978 were obtained from extracts of the Exempt Organization Master File (EOMF) and, in general, represented exempt organization returns that were processed in 1978 and 1979, respectively. The EOMF is a computerized tape file containing limited information for all exempt organization returns that are processed to this file for administrative purposes. Unlike the data for 1975, which were given special statistical treatment, the data for 1977 and 1978 were subjected only to essential validity checks conducted during the revenue processing of the returns.

5. ACKNOWLEDGEMENTS, NOTES AND REFERENCES

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- [1] Data for 1975 were obtained from unpublished Statistics Division tabulations on Tax-Exempt Organizations (Excluding Private Foundations and Farmers Cooperatives). Data for 1977 and 1978 were obtained from Exempt Organization Master File Tabulations.
- [2] Data for 1946 were obtained from U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income--1946, Supplement, Part 2, Returns of Organizations Exempt from Income Tax Under Section 101 Internal Revenue Code.
- [3] Trinidad V. Sagrada Orden de Predicadores, 263 U.S. 578, T.D. 3548, III-1 C.B. 270 (1924).
- [4] U.S. Department of the Treasury, Internal Revenue Service, How To Apply For And Retain Exempt Status For Your Organization. IRS Publication 557, U.S. Government Printing Office, 1979.
- [5] U.S. Department of the Treasury, Internal Revenue Service, Charitable Contributions. IRS Publication 526, U.S. Government Printing Office, 1979.
- [6] U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income--1963, Supplemental Report, Farmers' Cooperative Income Tax Returns. Publication 386, U.S. Government Printing Office, 1966. See also Statistics of Income--1953, Farmers' Cooperative Income Tax Returns. Publication 386, U.S. Government Printing Office, 1957.
- [7] U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income--1974-1978, Private Foundations. Publication 1073, U.S. Government Printing Office, 1981.
- [8] Petska, Thomas B., and Skelly, Daniel, "Private Foundations, Federal Tax Law, and Philanthropic Activity: An IRS Perspective," American Statistical Association 1981 Proceedings, Section on Survey Research Methods.
- [9] U.S. Department of the Treasury, Internal Revenue Service Statistics Division, Proposed Multi-Year Operating Plan, FY 1981-86, January, 1981.

6. BASIC TABLES

Table 1.--Returns of Tax-Exempt Organizations (Excluding Farmers Cooperatives) for 1946 and 1975: Number of Returns and Receipts by Type of Organizations
 [Money amounts are in thousands of dollars--Data for 1946 are based on all returns--data for 1975 are estimates based on samples]

1954 Code	Type of Organization	1946					1975				
		Total Returns (1)	Total Receipts (2)	Gross Dues and Assessments (3)	Gross Contributions and Grants (4)	All Other Sources (5)	Total Returns (6)	Total Receipts (7)	Gross Dues and Assessments (8)	Gross Contributions and Grants (9)	All Other Sources (10)
501(c)1	Corporations organized under act of Congress.....	6,270	278,581	140	118	278,323	665	527,018	26,590	10,712	489,716
2	Title holding companies.....	1,449	17,647	1,439	2,123	14,085	3,263	489,950	22,807	444,474	
3	Charitable, religious, educational, and scientific organizations (including private foundations).....	14,424	1,249,291	61,990	446,227	741,074	108,937	68,807,580	1,530,659	48,950,500	
4	Civic leagues, social welfare and local associations of employees.....	10,342	371,812	67,797	39,989	264,026	28,064	19,558,022	8,556,313	10,321,157	
5	Labor, agricultural, and horticultural organizations.....	27,235	521,387	421,809	37,046	66,532	28,258	5,028,232	3,233,684	1,674,976	
6	Business leagues, chambers of commerce, and real estate boards.....	7,206	299,541	203,543	20,665	75,333	17,530	3,896,717	2,155,722	1,510,973	
7	Social and recreational clubs.....	11,474	285,105	85,644	5,452	194,005	18,228	2,537,390	1,081,785	1,421,649	
8	Fraternities, beneficiary associations, certain mutual and beneficiary associations.....	590	63,306	27,295	6,423	29,588	12,066	2,134,477	719,610	1,369,247	
9	Domestic fraternal societies.....			RETURN NOT REQUIRED TO BE FILED			4,285	6,806,336	1,648,112	3,232,700	
10	Teachers retirement fund associations.....	8	2,099	175	101	1,783	4,674	507,370	94,487	391,554	
11	Local benevolent life insurance associations.....	2,984	91,468	4,596	158	86,714	49	100,280	4,062	90,307	
12	Cemetery companies.....	1,999	32,998	245	1,996	31,517	4,975	3,725,366	154,357	3,554,369	
13	State chartered credit unions.....	7,673	233,660	626	86	232,968	1,518	2,299,284	1,931	2,249,794	
14	Certain mutual insurance companies or associations.....	1,558	35,653	1,336	14	34,303	1,610	2,299,284	8,265	2,249,794	
15	Farmers cooperatives organized to finance crop operations.....	27	4,058	1,315	-	2,743	864	58,908	25,254	33,653	
16	Supplemental unemployment benefit trusts.....			NOT IN EXISTENCE			36	53,892	*12,123	23,309	
17	Employee funded pension trusts.....			NOT IN EXISTENCE			496	958,620	65,411	648,847	
18	War veterans organizations.....			NOT IN EXISTENCE			442	*12,628	*23	*5,921	
19	Organizations not specified.....	102	14,202	240	551	13,411	1,921	130,313	23,089	100,375	
Sub-total.....		92,741	3,500,748	878,190	560,153	2,062,405	9,605	308,519	63,092	183,347	
	Mutual savings banks 2/.....	602	725,185	1	1	725,183			NOT APPLICABLE		
	United States employee beneficiary associations 3/.....	115	6,622	3,346	2	3,344			NOT APPLICABLE		
Total.....		93,458	4,232,625	881,537	560,156	2,790,932	247,086	118,153,453	19,427,376	21,781,631	

1/ Private foundation data included in this line are for 1974. Comparable data for 1975 are not available.
 2/ Repealed by Section 313(a) of 1951 Revenue Act.
 3/ Internal Revenue Code 501(c)(10) as enacted in the 1954 Code was repealed by Section 121(b)(5) of the Tax Reform Act of 1969 and present IRC 501(c)(10) enacted effective for taxable years beginning after December 31, 1969.

* Estimate should be used with caution because of the small number of sample returns on which it is based.
 NOTE: Detail may not add to total because of rounding.

Table 2.--Returns of Tax-Exempt Organizations With Total Receipts of \$10,000: Selected Income Statement and Balance Sheet Items by Size of Total Assets, 1975, 1977-1978

[Money amounts are in thousands of dollars]

Item and Year	Total	Size of Total Assets						
		Under \$25,000	\$25,000 under \$100,000	\$100,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 under \$10,000,000	\$10,000,000 or more	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Number of returns:								
1975.....	179,092	75,226	40,772	37,995	9,100	13,404	2,555	
1977.....	191,526	76,849	44,636	41,523	9,689	15,309	3,520	
1978.....	215,701	84,531	50,244	47,441	11,286	17,585	4,614	
Total receipts:								
1975.....	114,595,998	3,228,374	3,761,945	8,128,388	4,843,896	25,448,126	69,175,269	
1977.....	176,462,097	3,498,257	4,315,182	9,693,570	5,815,706	31,589,952	121,549,429	
1978.....	238,388,877	4,140,196	5,110,930	11,771,564	7,285,633	37,400,119	172,680,431	
Selected receipts: Contributions, gifts, and grants:								
1975.....	20,518,184	1,089,975	1,254,410	2,487,372	1,366,713	5,368,976	9,010,737	
1977.....	23,972,436	1,137,582	1,435,564	3,123,055	1,680,682	6,420,849	10,174,722	
1978.....	31,332,171	1,428,127	1,792,570	4,021,265	2,200,359	8,005,951	13,883,900	
Dues and assessments:								
1975.....	19,305,390	989,627	1,108,704	2,206,360	1,192,476	3,536,467	10,269,755	
1977.....	24,698,914	1,086,217	1,228,310	2,532,381	1,404,006	4,272,852	14,224,869	
1978.....	29,045,873	1,159,438	1,364,290	2,997,913	1,682,033	5,082,255	16,869,941	
Sales and other receipts:								
1975.....	74,762,370	1,208,751	1,398,816	3,434,611	2,284,705	16,540,677	49,894,774	
1977.....	127,790,747	1,324,151	1,651,308	4,038,134	2,731,038	20,896,271	97,149,838	
1978.....	178,010,833	1,572,631	1,954,070	4,842,386	3,403,241	24,311,912	141,926,993	
Selected deductions:								
Cost of goods sold:								
1975.....	8,546,098	190,902	282,308	616,259	418,254	2,476,503	4,561,872	
1977.....	12,001,553	236,044	330,307	689,638	427,491	2,949,397	7,368,674	
1978.....	15,457,565	289,684	371,815	814,159	599,809	3,200,700	10,181,400	
Direct fees paid for contributions, gifts, and grants:								
1975.....	56,355	7,549	7,405	6,900	2,491	21,750	10,260	
1977.....	70,165	7,910	7,137	16,710	5,032	21,246	12,103	
1978.....	87,745	13,257	9,746	18,683	8,473	21,431	15,952	
Total assets:								
1975.....	175,533,077	628,834	2,210,622	8,623,336	6,415,010	39,959,493	117,695,783	
1977.....	250,616,142	673,599	2,426,433	9,430,383	6,844,812	46,542,376	184,698,536	
1978.....	346,375,726	743,225	2,726,520	10,800,912	7,946,918	53,195,885	270,962,266	
Total liabilities (excluding net worth)								
1975.....	75,549,032	158,337	495,272	2,239,551	1,955,615	16,449,459	54,250,795	
1977.....	100,318,288	174,059	560,667	2,593,002	2,159,348	18,824,883	76,006,327	
1978.....	127,063,904	1,205,891	649,394	3,015,219	2,545,859	21,997,423	97,650,115	

1/ Data for 1977 and 1978 are based on the population of returns processed to the Exempt Organization Master File during 1978-1979. Data for 1975 are estimates based on a stratified sample of form 990 returns processed in 1976.

Note: Detail may not add to total because of rounding.

Table 3.--Returns of Tax-Exempt Organizations With Total Receipts of \$10,000: Selected Income Statement and Balance Sheet Items by Size of Total Receipts, 1975, 1977-1978

[Money amounts are in thousands of dollars]

Item and Year	Total	Size of Total Receipts						\$10,000,000 or more
		Under \$25,000	\$25,000 under \$100,000	\$100,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 under \$10,000,000	\$10,000,000 or more	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Number of returns:								
1975.....	179,052	55,800	64,404	39,448	8,188	9,544	1,668	
1977.....	191,526	55,974	67,834	43,485	9,512	12,275	2,446	
1978.....	215,701	59,502	76,340	50,445	11,208	15,020	3,186	
Total receipts:								
1975.....	114,585,998	907,436	3,364,290	8,779,741	5,767,112	26,097,027	68,930,392	
1977.....	176,462,097	921,800	3,346,966	9,628,831	6,713,444	34,903,658	120,747,398	
1978.....	230,388,877	993,022	4,008,262	11,229,002	7,884,752	43,407,049	170,866,790	
Selected receipts: Contributions, gifts, and grants:								
1975.....	20,518,184	166,548	764,965	2,478,555	1,597,919	5,936,680	9,573,517	
1977.....	23,972,436	167,360	799,122	2,768,930	1,951,433	7,663,015	10,622,526	
1978.....	31,332,171	181,941	926,383	3,343,969	2,389,378	9,881,283	14,609,216	
Dues and assessments:								
1975.....	19,305,390	342,122	1,098,402	2,258,507	1,299,237	3,321,493	10,985,630	
1977.....	24,698,914	347,168	1,145,224	2,451,463	1,473,833	4,292,178	14,989,048	
1978.....	29,045,873	364,094	1,248,663	2,772,895	1,702,480	5,420,424	17,537,318	
Sales and other receipts:								
1975.....	74,762,370	398,751	1,500,900	3,982,668	2,869,953	17,638,893	48,371,244	
1977.....	127,790,747	407,272	1,602,820	4,408,388	3,286,178	28,948,465	95,135,824	
1978.....	178,010,833	446,987	1,833,216	5,112,138	3,792,894	28,105,342	138,720,256	
Selected deductions: Cost of goods sold:								
1975.....	8,546,098	61,349	270,398	627,437	449,669	2,891,007	4,246,239	
1977.....	12,001,593	73,162	314,143	697,849	464,803	3,377,620	7,073,976	
1978.....	15,457,565	84,197	347,329	793,923	526,241	4,037,047	9,666,828	
Direct fees paid for contributions, gifts, and grants:								
1975.....	56,355	2,403	5,910	10,834	6,862	20,721	9,425	
1977.....	70,165	941	8,632	16,287	9,924	25,162	9,219	
1978.....	87,745	133	9,160	21,014	20,164	24,375	12,899	
Total assets:								
1975.....	175,533,077	1,759,287	6,124,513	15,851,669	9,700,560	44,773,780	97,343,268	
1977.....	250,616,142	1,917,095	6,160,344	16,377,261	10,642,506	54,946,130	160,572,806	
1978.....	346,375,726	2,040,093	6,710,032	18,536,834	12,874,215	68,177,908	238,036,644	
Total liabilities (excluding net worth)								
1975.....	75,549,032	362,319	1,992,652	6,552,451	3,838,818	17,580,429	45,227,838	
1977.....	100,318,288	487,736	1,798,218	8,091,182	4,258,999	21,864,629	63,777,481	
1978.....	127,063,904	460,307	3,053,880	7,978,045	5,821,772	28,007,299	81,742,600	

1/ Data for 1977 and 1978 are based on the population of returns processed to the Exempt Organization Master File during 1978-1979. Data for 1975 are estimates based on a stratified sample of Form 990 returns processed in 1976.

Note: Detail may not add to total because of rounding.