
An Examination of the Growth and Activities of the U.S. Nonprofit Sector from Information Returns, 1975-1995

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The nonprofit sector is an important and growing force in American society. Nonprofit charitable and philanthropic organizations provide a wide variety of support and services to the American public. Over the past 20 years, the size and scope of these nonprofit activities have grown dramatically and are now a significant portion of the U.S. economy.

The Statistics of Income (SOI) Division of the IRS collects extensive data each year on organizations that comprise the nonprofit sector [1]. Through these nonprofit sector statistical programs, SOI is involved in ongoing data collection efforts that allow researchers and policymakers to better describe and measure the role of the different types of nonprofit organizations in the American economy.

This paper is a summary profile of the nonprofit sector over the past 20 years. It begins with a description of the two types of organizations that comprise the nonprofit sector—charitable organizations and private foundations, and how the data are collected from Federal information and tax returns by the SOI Division. Next, it describes the manner in which the nonprofit sector has grown and changed over the 20-year period from 1975 to 1995. Then, it provides descriptive statistical profiles of the two types of nonprofit sector organizations.

The main component of the nonprofit sector is comprised of charitable organizations exempt under section 501(c)(3) of the Internal Revenue Code. These organizations are publicly supported and have interests that are religious, charitable, scientific, literary, or educational. Examples of such organizations include universities and schools, hospitals and medical research organizations, social service organizations, community development groups, performing arts groups, and environmental organizations.

The second component, also exempt under section 501(c)(3), includes private foundations that operate pro-

grams, provide services, and/or make grants in order to fulfill charitable purposes. Private foundations are narrowly supported and controlled, usually by an individual, family, or corporation. It is this narrow base of support and control that distinguishes a private foundation from other charitable organizations exempt under section 501(c)(3); and because of it, they are more strictly regulated than charities. The majority of foundations are “nonoperating foundations” that provide indirect charitable support through grants to individuals or other nonprofit organizations that conduct charitable programs of their own. These nonoperating foundations (92 percent of all foundations) are required to distribute a portion of their assets each year for charitable purposes. “Operating foundations” conduct their own programs, much like public charities, and are not subject to the payout requirement.

■ SOI Data on Nonprofit Sector Organizations

The Statistics of Income (SOI) Division constructs population estimates and compiles detailed descriptive data from a sample of nonprofit organizations which can be used to address a variety of tax policy issues related to the sector. Data—financial and otherwise—are compiled from the income statements, balance sheets, and schedules of IRS Forms 990 (*Return of Organization Exempt from Income Tax*); 990-EZ (*Short Form: Return of Organization Exempt from Income Tax*); and 990-PF (*Return of Private Foundation (or Section 4947(a)(1) Charitable Trust Treated as a Private Foundation)*). The data are subject to comprehensive consistency and validity testing and correction procedures to ensure that they are of high quality.

Because the charitable organizations and private foundations are subject to different Federal regulations and file different information returns, SOI has conducted separate studies with different sample designs for each type of organization. Private foundation data were first collected by SOI for Reporting Year 1974, while chari-

table organization data were first collected by SOI for Reporting Year 1975. Since 1982, SOI data on private foundations and charitable organizations have been collected annually (except for 1984).

Sample data on the 501(c)(3) charitable organizations for Reporting Year 1995 are based on a stratified probability sample of approximately 12,000 returns, selected from a population of 184,600 returns. The sample was stratified based on book value of total assets, with sampling rates ranging from 0.45 percent for the smallest of seven asset classes to 100 percent for organizations with assets of \$10 million or more. Sample data on private foundations for Reporting Year 1995 are based on a stratified probability sample of approximately 5,600 returns that were selected from a population of approximately 49,800. The sample was stratified based on both the size of fair market value of total assets and the type of organization. Foundation returns were selected at rates that ranged from approximately 2.8 percent for small foundations with assets of less than \$100,000 to 100 percent for very large foundations with assets of \$10 million or more. Figure A shows the sample sizes and estimated populations of charitable organization and private foundation studies for selected years from 1975 through 1995.

Figure A. -- Estimated Population and Sample Sizes for Charitable Organizations and Private Foundations, Selected Years, 1975-1995

Year	Charitable Organizations		Private Foundations	
	Population	Sample	Population	Sample
1975 ¹	325,777	51,479	28,145	8,952
1982.....	75,738	4,398	28,468	1,309
1985.....	123,501	6,526	31,221	1,905
1990.....	145,443	12,007	40,166	4,541
1995.....	184,629	11,925	49,823	5,580

¹ For 1975, the population and sample of charitable organizations included organizations exempt under Sections 501(c)(1) through (c)(21) of the IRC. Data for private foundations are from the 1974 study.

For both studies, returns are selected for the sample over a 2-year period to account for filing extensions and the range of fiscal years of foundations and charities.

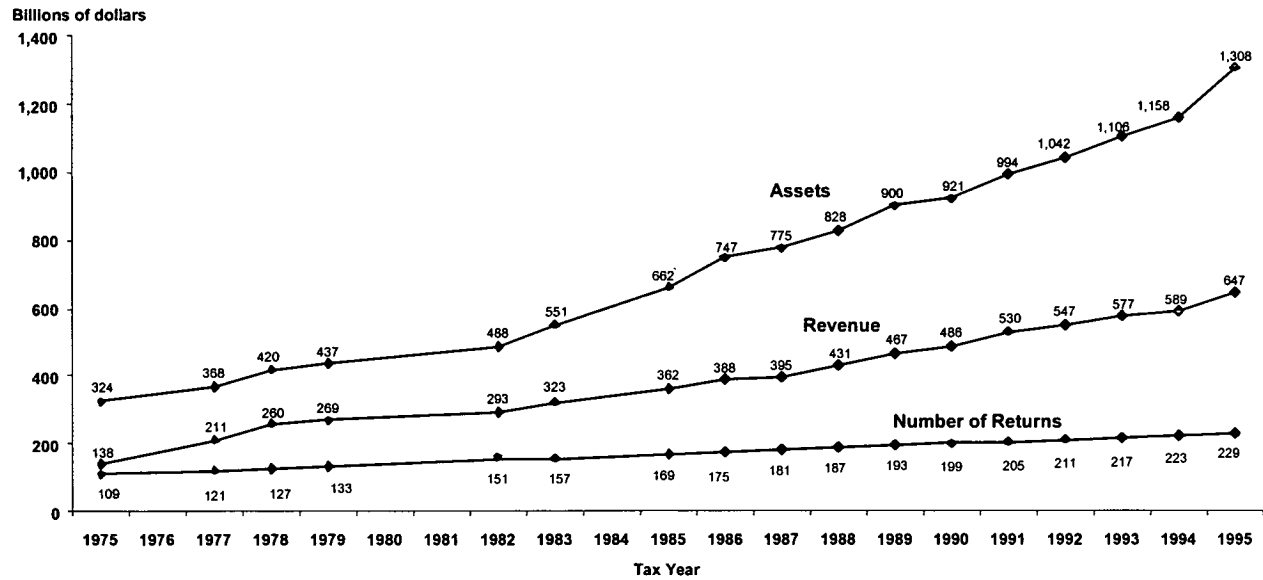
■ Nonprofit Sector Growth, 1975-1995

In 1995, there were approximately 626,000 nonprofit organizations exempt under section 501(c)(3) of the Internal Revenue Code, including private foundations. Of these, only about 229,000 were required to file information returns with the IRS. The remainder, approximately 400,000, were not required to file either because they were churches, synagogues, or other religious organizations or because they were charities with annual gross receipts of less than \$25,000. Of those that filed information returns, 79 percent were charitable organizations, and 21 percent were private foundations.

Nonprofit organizations that filed information returns with the IRS held nearly \$1.4 trillion in assets, earned \$695 billion in revenue, and reported charitable expenditures in excess of \$537 billion for 1995. These figures represent dramatic increases from those reported 20 years ago. From 1975 to 1995, the total number of nonprofit organizations more than doubled. Nonprofit sector assets and revenues increased in every year that the SOI Division conducted studies and more than tripled in real terms from 1975 to 1995 [2]. This compares to growth in real GDP of 74 percent during this same 20-year period. Figure B shows year-to-year increases in number of filers, assets, and revenue for nonprofit organizations since 1975.

The revenues of all organizations exempt under section 501(c) are estimated at 9.6 percent of the 1995 gross domestic product (GDP), which is more than double that of 20 years ago. By excluding from the calculation the revenue of private foundations, the revenue of 501(c)(3) charitable organizations alone represents 9.1 percent of GDP. It should be noted, however, that the nonprofit sector's share of GDP does not account for double-counted contributions; that is, it does not remove those contributions that are given by one charity to another. One study, using 1987 data, suggested that the total revenue of 501(c)(3) charitable organizations would be approximately 5 percent less each year if adjustments for such double-counting were made [3]. Given this, if revenues of all 501(c)(3) charities were reduced by 5 percent, their share of GDP would fall from 9.1 percent to an estimated 8.7 percent [4]. Despite their important

Figure B. -- Nonprofit Organizations, Total Revenue, and Total Assets, 1975-1995, in Constant Dollars¹



¹ Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, Table 7.1.

role, nonprofit organizations comprise a much smaller share of the American economy than either business or government. That is, the nonprofit sector's share of national income was estimated at less than half that of the government sector for 1995 [5].

■ Assets and Revenue of the Nonprofit Sector

Although more than 74 percent of nonprofit organizations each held less than \$1 million in assets, the vast majority of assets and revenues are accounted for by a relatively few very large organizations. For example, only 2 percent of charitable organizations had assets over \$50 million in 1995. However, these organizations held 76 percent of total assets and accounted for 65 percent of total revenues. Likewise, less than 1 percent of private foundations accounted for about 60 percent of total foundation assets and half of the revenues. While charities and foundations are similar in this way, they differ somewhat in the sources of their revenue and the composition of their assets. Therefore, it is useful to analyze the financial makeup of these two components of the nonprofit sector.

■ Sources of Nonprofit Organization Revenue

As a group, charitable organizations rely on program service revenue as their primary source of income. Program service revenue is comprised primarily of fees collected from the programs and activities operated in support of an organization's tax-exempt purpose, such as tuition, patient care charges, admission, and activity fees.

As shown in Figure C, program service revenue comprised two-thirds of charitable organization revenue. In general, as the size of the organization increases, so does its reliance on this type of revenue. Since 1975, charities have increasingly relied on program service revenue. They earn or receive smaller portions of total revenue from two other sources: contributions, 19 percent; and investment income such as dividends, interest, and net gain from sales of assets, 7 percent. The proportion of revenue that charitable organizations receive from contributions has dropped substantially since 1975, when contributions received represented nearly one-third of total revenue.

Figure C. -- Sources of Charitable Organization Revenue, 1995

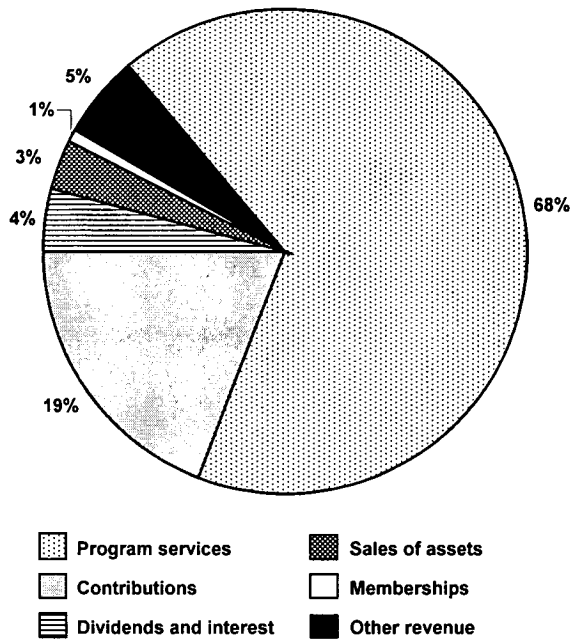
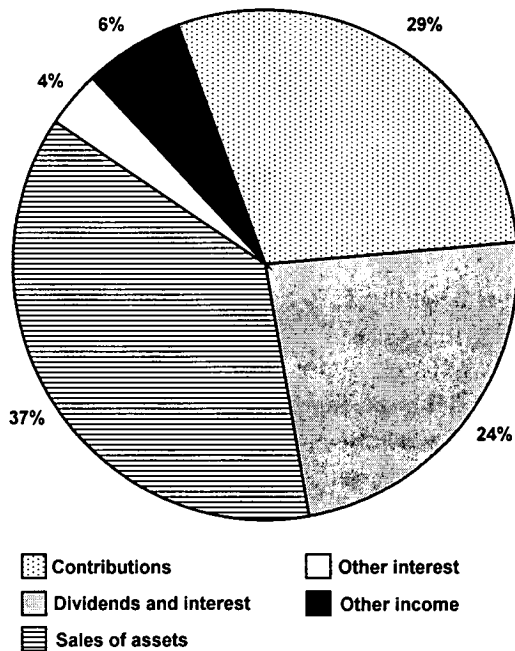


Figure D. -- Sources of Private Foundation Revenue, 1995



Private foundation revenue, on the other hand, is comprised largely of various types of investment income, as shown in Figure D. For 1995, foundations earned about two-thirds of their revenue from investments, which included 37 percent from net gains from sales of assets, 24 percent from dividends and interest from securities, and 4 percent from interest on savings and temporary cash investments. Most of the remaining revenue was comprised by contributions, 29 percent. Compared to 1974 data, the proportion of foundation revenue comprised by these different sources has remained fairly constant. As foundations grow in asset size, they rely much more on investment income as their primary source of income and much less on contributions. For instance, the largest foundations—those holding \$100 million or more in fair market value of assets—received 80 percent of revenue from investment income and 15 percent from contributions for 1995. On the other hand, the smallest foundations—those holding less than \$1 million in fair market value of assets—received only 25 percent of revenue from investment income, but 65 percent from contributions. It is likely that at least some of the contributions received by the smaller foundations are made by larger foundations.

■ Assets of Nonprofit Organizations

The assets of charitable organizations are comprised of a variety of investments and other holdings. Figure E reveals that over one half, or 56 percent, of charities' assets are comprised of investments, which include securities, such as corporate stock, corporate bonds, and government obligations; savings and temporary cash investments; and other miscellaneous investments. Holdings of charitable-purpose land, buildings, and equipment comprise one-quarter of total assets. As organizations increase in size, they tend to hold a greater proportion of their assets as investments in securities, and less as savings and other temporary cash investments. For instance, for 1995 those small organizations that held less than \$1 million in total assets held 10 percent of their assets as investments in securities and 26 percent as savings and other temporary cash investments. In contrast, those large organizations that held \$50 million or more in assets held 43 percent of assets as investments in securities and 6 percent as savings and other temporary cash investments.

Figure E. -- Composition of Charitable Organization Assets, 1995

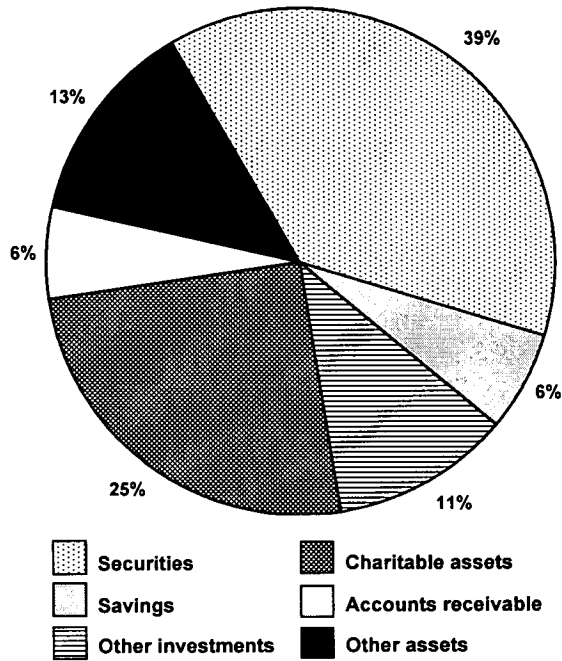
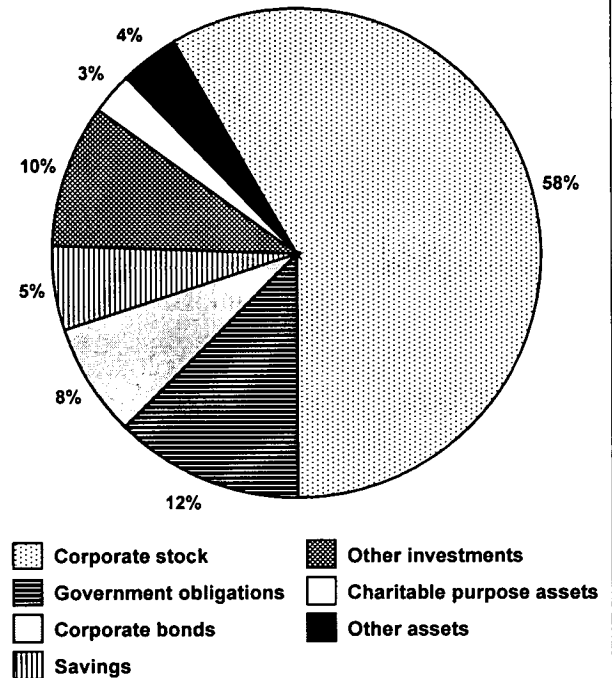


Figure F. -- Composition of Private Foundation Assets, 1995



Holdings of investment assets dominate total foundation assets, comprising 93 percent of assets for 1995. As illustrated in Figure F, over three-quarters of private foundation assets were held as investments in securities, which include corporate stock (58 percent), corporate bonds (8 percent), and government obligations (12 percent). Like charities, as foundations grow in size, they tend to engage in more sophisticated investment practices and hold greater proportions of investments in securities. For instance, the largest foundations held 81 percent of their assets as investments in securities for 1995, while the smallest foundations held 59 percent of their assets in this manner. Due in large part to their greater holdings of investments in securities, the larger foundations have realized much greater increases in asset growth over the past 20 years compared to their smaller foundation counterparts.

■ Limitations of SOI Data

Statistics of Income studies based on IRS Forms 990 and 990-PF provide some of the most extensive and

detailed data available for the nonprofit sector. However, these data are not without limitations.

Over 400,000 501(c)(3) nonprofit organizations recognized by the IRS were not required to file information returns for 1995 and are not included in the data. The vast majority of these were churches and other religious-affiliated organizations that voluntarily applied for IRS recognition, but were not required to by law.

Other organizations missing from the data are charities with annual gross receipts of less than \$25,000. These very small organizations are required to apply for IRS recognition, but not required to file (though some do). (Since SOI began collecting data on charities, the filing threshold has been raised twice: from \$5,000 to \$10,000 in 1976, and from \$10,000 to \$25,000 in 1982.) It is estimated that economic activity of these non-filers is fairly insignificant in relation to the sector as a whole.

Some of the limitations of SOI nonprofit data that were a result of the content of the information returns

have been addressed in recent years. For many years, Forms 990 and 990-PF lacked fields from which to compile useful employment data on the nonprofit sector. Beginning in 1992, questions regarding compensation and benefits of officers, directors, and other highly-paid employees were added to the SOI study. And in 1997, for the first time, charities were asked to report their total number of employees.

Additionally, since 1994, charitable organizations in the SOI sample have been classified based on the National Taxonomy of Exempt Entities (NTEE). This system allows for better information on the various and wide-ranging segments of the nonprofit sector. It is hoped that, in the future, a similar classification system can be applied to the specific activities and/or grants of charitable organizations and private foundations.

■ Conclusion

The growth of the nonprofit sector since 1975 has been nothing short of tremendous. While the number of organizations doubled, assets and revenue more than tripled over the past 20 years. As nonprofits become an even more important and visible part of the American economy, the need for detailed and reliable data will continue to grow. The Statistics of Income Division of the IRS stands ready to meet the challenge with innovative and accurate data collection techniques as the economy moves into the new century.

■ Notes and References

[1] For this paper, the "nonprofit sector" refers to organizations described under section 501(c)(3) of

the Internal Revenue Code (IRC), which include nonprofit charitable organizations and private foundations. The Internal Revenue Service also recognizes organizations described under sections 501(c)(1), (c)(2) and 501(c)(4) through (c)(25) of the IRC. These organizations are exempt from income tax but are not necessarily charitable in nature, and donations made to them are generally not tax-deductible for the donor. The Statistics of Income Division also collects data on 501(c)(4) through 501(c)(9) organizations; 4947(a)(1) non-exempt charitable trusts that file Form 990-PF; and the unrelated business income of all exempt organizations. These data are not discussed in this paper.

- [2] Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, vol. 78, no. 8, August, 1998, Table 7.1.
- [3] Hodgkinson, Virginia A.; Weitzman, Murray S.; Toppe C.; and Noga, S, *Nonprofit Almanac, 1992-1993: Dimensions of the Independent Sector*, San Francisco, CA: Jossey-Bass, Inc., Publishers, 1992, Table 4.9, p. 160.
- [4] In other parts of this article, when discussing charitable organization revenue, adjustments are not made for double-counted contributions.
- [5] Hodgkinson, Virginia A. and Weitzman, Murray S., et al., *Nonprofit Almanac 1996-1997: Dimensions of the Independent Sector*, San Francisco, CA: Jossey-Bass, Inc., Publishers, 1996.