

Overview of Tax-Exempt Sector Research

Introduction

In the United States, charities play an extremely important part in the lives of citizens, as well as being an important economic force. According to a 1999 survey conducted by the Independent Sector, 70.1 percent of households contributed to charities in 1999, and the average household contribution to charity was \$1,075 [1]. Seventy-six percent of citizens reported feeling that nonprofit organizations played an important role in their own communities [2]. Because the nonprofit sector plays such a large role in the U.S. economy, detailed study and analysis of this “third sector” is vital. The Statistics of Income (SOI) data show that the number of nonprofit charitable organizations filing information returns with the Internal Revenue Service (IRS) more than doubled during the 20-year period between 1975 and 1995, and their real assets and revenues more than quadrupled [3] [4].

In addition to being a significantly large component of the American economy, the nature of the nonprofit sector is changing. A report by the Kellogg Foundation examined several new characteristics of the nonprofit sector which have emerged in the late twentieth century. Specifically, the report found three new waves of change. First, the “innovations of social entrepreneurs and the organizational models they are creating require new perspectives and responses from traditional philanthropy” [5]. Second, “pressures from an active and vocal civil society, along with enlightened corporate leadership are...creating new opportunities and incentives for the commercial sector to partner with philanthropies, other nonprofits and government” [6]. Last, “belief in the value of wealth creation in addressing social change along with the principles of venture capital investment is influencing the practice of emerging philanthropists” [7]. Such important shifts in a large sector of the American economy makes critical the financial information pertaining to exempt organizations [8]. This Compendium of Studies of Tax-Exempt Organizations provides a comprehensive picture of the financial characteristics of tax-exempt organizations, allowing scholars access to the wealth of information gathered by The Statistics of Income Division.

Volume 3: A Tradition of Exempt-Organization Data Publishing

The Compendium of Studies of Tax-Exempt Organizations, Volume 3, 1989-1998, is a comprehensive source of SOI data and information concerning the nonprofit sector. SOI conducts annual studies of certain types of tax-exempt organizations, using samples of returns filed with the IRS. Analyses of study results, along with statistical tabulations, are published annually in the *SOI Bulletin*. Volume 3 of the Compendium consolidates all data and articles previously published by SOI, covering various Reporting Years between 1989 and 1998 [9].

The earliest collection of SOI data on nonprofit charitable organizations and private foundations, classified as tax-exempt under Internal Revenue Code section 501(c)(3), appeared in the first volume of the Compendium, which presented articles published from 1974 through 1987. The Compendium, Volume 2, was more comprehensive. In addition to data on section 501(c)(3) organizations, it contained information on charitable bequests and organizations exempt from tax under sections 501(c)(4) through (c)(9). These sections of the Code describe social welfare organizations; membership societies; and civic, social, recreational, and fraternal organizations.

SOI plays an important role in fostering research on tax-exempt organizations by sharing its data and collaborating with other researchers inside and outside of Government. In addition to SOI articles, Volume 3 contains papers authored by non-SOI scholars who have used SOI data for research on various aspects of the nonprofit sector.

Volume 3 of the Compendium organizes the articles and papers on tax-exempt organizations into the following sections:

- Overview of Tax Exempt Sector Research
- Charities and Other Tax Exempt Organizations
- Private Foundations and Charitable Trusts
- Unrelated Business Income Tax
- Charitable Remainder Trusts
- Related Papers on Nonprofit Research Using SOI Data

Overview of Tax-Exempt Sector Research

Of the articles included in the Compendium, Volume 3, most have appeared in various quarterly editions of the Statistics of Income (SOI) Bulletin. Some were prepared for publication in other SOI publications and academic journals. A listing of references for the articles and papers included in this volume, in addition to references cited therein, appears in the “References” section.

Areas of Focus Within the Nonprofit Sector

The first two articles in The Compendium, Volume 3, provide a historical overview of nonprofit research done at SOI. Skelly’s article focuses on all nonprofit research done, while that written by Meckstroth and Arnsberger deals mainly with research on section 501(c)(3) organizations filing Forms 990, 990-EZ, and 990-PF. In addition to the two articles presenting historical data, the “Overview” section includes an article describing the methodologies used to select each of the SOI exempt-organization return samples

In the section entitled “Charities and Other Tax Exempt Organizations,” data presented were gathered from Forms 990, *Return of Organization Exempt from Income Tax*, and 990-EZ (the short-form version of the return) for Reporting Years 1989 through 1998. These articles include information on organizations such as schools, hospitals, public charities, and certain religious organizations, as well as social welfare organizations, civic and business leagues, labor and agricultural organizations, recreational and social clubs, fraternal beneficiary associations, and voluntary employees’ beneficiary associations. Reporting Year 1997 and later years’ data incorporate two significant additions to the annual studies: information regarding lobbying expenditures by 501(c)(3) organizations, as well as a worksheet reconciling revenue and expenses on an organization’s financial statements with the amounts it reports on Form 990.

The third section, “Private Foundations and Charitable Trusts,” presents data collected from Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*, for Reporting Years 1991 through 1997. Rather than operate their own charitable programs, many private foundations provide grants to other nonprofit organizations, com-

munities, and individuals. These grants provide financial support to programs in the areas of the arts, humanities, education, health, human services, and environmental protection, among others. In addition to information on private foundations, this section includes information on “nonexempt charitable trusts” classified under Code section 4947(a)(1).

This is the first Compendium volume to include annual information from Form 990-T, *Exempt Organization Business Income Tax Return*. Data are presented for Tax Years 1991 through 1997, based on samples of returns with reported gross “unrelated business income” (UBI) of \$1,000 or more. Generally, a Form 990-T tax return is required to be filed by an organization, ordinarily exempt from tax, to report income produced from activities that are “regularly carried on” and “are not substantially related” to its tax exempt purpose. Beginning with Tax Year 1993, the sample included all Forms 990-T filed by any organizations whose annual information returns were selected for the Form 990 SOI sample, in addition to other Forms 990-T selected independently.

Also included in this Compendium volume is an article on charitable remainder trusts for Reporting Year 1998, which was published in the Winter 2000-2001 issue of the SOI Bulletin. Data for the 1998 study of charitable remainder trusts were collected from Form 5227, *Split Interest Trust Information Return*. Form 5227 is filed by trusts having both charitable and noncharitable beneficiaries, as described in section 4947(a)(2) of the Internal Revenue Code. The most recent split-interest trust data published by SOI prior to the 1998 report were for Reporting Year 1979 [10]. Charitable remainder trusts pay either a fixed dollar amount or a percentage of assets annually to one or more non-charitable beneficiaries. These payments may be for a specified number of years or for the life of the beneficiary. Upon termination of the payments, the remaining interest is transferred to a charitable organization.

The final section contains additional articles and papers on topics related to the nonprofit sector. These topics cover corporate and individual philanthropy, tax-exempt private activity bonds, the classification of nonprofit charitable organizations by the National Taxonomy of Exempt Entities, and the commercialization of nonprofit organizations.

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Statistical Research at SOI

Since 1917, the Statistics of Income Division within IRS has produced annual financial statistics which are reported on various returns filed with the IRS. SOI produces financial statistics on individuals, domestic corporations, U.S. corporations with foreign activities, wealth and estates, and tax exempt organizations. Data and descriptive articles regarding these subject areas are published in various SOI publications, which are detailed at the back of this volume in the "SOI Products and Services" section.

Data for SOI is developed using samples of all tax returns filed with the Internal Revenue Service. Specifically, tax-exempt organization data are collected from the following forms:

- Form 990, Return of Organizations Exempt from Income Tax
- Form 990EZ, Short Form: Return of Organizations Exempt from Income Tax
- Form 990-PF, Return of Private Foundation (of Section 4947(a)(1) Trust Treated as a Private Foundation)
- Form 990-T, Exempt Organization Business Income Tax Return
- Form 5227, Split-Interest Trust Information Return

For a general discussion of SOI sampling procedures and data limitations, there is an article entitled "SOI Sampling Methodology and Data Limitations," found in the Appendix to this volume. As mentioned above, a more detailed description of sampling for the various exempt organizations studies is included in the "Overview" section. Additionally, articles published in the SOI Bulletin each contain a section dedicated to "Data Sources and Limitations."

Looking Toward the Future: Upcoming Plans for Tax Exempt Data

SOI has recently engaged in a project that greatly improves the accessibility of nonprofit data by scanning and storing Forms 990 and 990-PF on CD-ROMS or tapes. This project, which has been co-sponsored by the National Center for Charitable Statistics (NCCS), requires collaboration with IRS staff in SOI, the Tax Exempt/Government Entities (TE/GE) Division, and the Submission Processing

Center in Ogden, UT. To date, more than 20 million pages of the forms and their attachments have been scanned.

The SOI studies of charitable remainder trusts for Reporting Years 1998 and 1999 cover only two types of split-interest trusts filing Form 5227. These are charitable remainder annuity trusts and charitable remainder unitrusts. Beginning with Reporting Year 2000, the SOI split-interest trust studies will be expanded to include all types of organizations filing Form 5227 – charitable remainder trusts, pooled income funds, and charitable lead trusts.

SOI Products and Services

SOI data are available in both electronic format and printed publications. Microdata for exempt organizations (Forms 990 and 990-PF) are available from SOI, as well as the National Center for Charitable Statistics. The data, which contain identifiable organization records, can be made available because of the Federal requirement for these organizations to make their IRS information returns available to the public. To request any of the data or microdata CD-ROM's offered by SOI, contact the Statistical Information Services Office:

Statistical Information Services
(202) 874-0410
Statistics of Income Division
(202) 874-0964 (fax)
Internal Revenue Service
sis@irs.gov (e-mail)
P.O. Box 2608
Washington, DC 20013-2608

Scanned images of Forms 990 and 990-PF filed by section 501(c)(3) organizations are also available from the internet sites of Philanthropic Research, Inc. (PRI) and the National Center for Charitable Statistics (NCCS). The World Wide Web addresses for PRI and NCCS are as follows:

Philanthropic Research, Inc.
www.guidestar.org
National Center for Charitable Statistics
www.nccs.urban.org

Additionally, SOI's Internet site offers over 800 files of both SOI and non-SOI products and services.

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Files presenting tables, articles, information about SOI products and services, IRS Annual Data Book tables, Compliance Research projections, and non-profit Master File microdata records are currently available. The SOI World Wide Web address is: http://www.irs.gov/tax_stats.

Notes and References

- [1] The statistics quoted are based on the 1999 National Survey conducted by the Independent Sector. The complete results of this survey can be found on the Independent Sector's World Wide Web page, <http://www.independentsector.org/GandV/default.htm>.
- [2] *ibid.*
- [3] Meckstroth, Alicia and Arnsberger, Paul, "A 20-Year Review of the Nonprofit Sector, 1975-1995," *Statistics of Income Bulletin*, Fall 1998, Volume 18, Number 2, in this Compendium.
- [4] Data are from Forms 990 and 990-EZ for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most churches, and certain other types of religious organizations. They also exclude most colleges and universities operated by State and local governments.
- [5] Reis, Tom and Clohesy, Stephanie. "Unleashing New Resources and Entrepreneurship for the Common Good: A Scan, Synthesis, and Scenario for Action." This article was found on a World Wide Web page operated by the Kellogg Foundation; it can be accessed in either PDF or HTML format from the following web page: <http://www.wkkf.org/Knowledgebase/results.asp>.
- [6] *ibid.*
- [7] *ibid.*
- [8] Additional information on the changing nature of nonprofits, and their relationship to the Government can be found in the article entitled, "Changing Roles, Changing Relationships: The New Challenge for Business, Nonprofit Organizations, and Government." This article is available in HTML format through the Independent Sector's World Wide Web Page, http://www.independentsector.org/programs/leadership/3Sector_Collaboration.html.
- [9] The title of the Compendium, Volume 3, cites the years 1989-1998 because these are the Return Years covering annual analyses that were published for the various SOI tax-exempt organization return studies. However, two articles that contain limited historical data for certain years prior to 1989 have also been included in the Overview section of the Compendium.
- [10] Petska, Thomas B., "Charitable Trusts: An IRS Examination of Nonexempt Philanthropic Organizations," *Statistics of Income and Related Administrative Record Research: 1983*, Selected Papers Given at the 1983 Annual Meeting of the American Statistical Association in Toronto, Canada: August 14-18, 1983, Washington, DC: Internal Revenue Service, Statistics of Income Division, October 1983.
- Source: IRS; Compendium of Studies of Tax-Exempt Organizations, 1989-1998; Volume 3, Publication 1416; August 2002