A 20-Year Review of the Nonprofit Sector, 1975-1995

by Alicia Meckstroth and Paul Arnsberger

The nonprofit sector, also called the voluntary sector or the independent sector, is an important force in American society. Nonprofit organizations, strengthened by charitable giving and volunteering, make positive differences in communities, states, and the nation by providing goods and services, often using innovative strategies. While nonprofit organizations lack the resources and are not structured to meet all of America's needs, they do play an important role in addressing needs and in enhancing community strength, vitality, and diversity [1]. During the 20-year period from 1975 to 1995, the real assets and revenues of nonprofit organizations filing information returns with the IRS more than tripled, to $1.9 trillion and $899 billion, respectively . This compares to real growth in gross domestic product (GDP) of 74 percent during the same 20-year period [2].

The Statistics of Income (SOI) Division of the IRS collects extensive data each year on the different types of organizations that comprise the nonprofit sector. 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.

The nonprofit sector includes a wide range of organizations exempt under section 501(c) of the Internal Revenue Code. First, those organizations exempt under 501(c)(3) are considered charitable in nature and include organizations, such as universities and schools, hospitals, scientific research organizations, United Way campaigns, social service organizations, community development groups, performing arts groups, and environmental support organizations (referred to as nonprofit charitable organizations). Also exempt under section 501(c)(3) are private foundations. The 501(c)(3) organizations operate programs, provide services, and/or make grants in order to fulfill charitable purposes. They can receive tax-deductible contributions to support their purposes. Each must serve the public good (as opposed to private interests) to qualify for tax-exempt status. Also, they are restricted in activities that can influence legislation and political campaigns.

In addition to these charitable organizations, the nonprofit sector includes various other tax-exempt organizations that provide an array of not-for-profit services and activities that benefit their members, but are not charitable in nature. These organizations are exempt from Federal income tax under one of the other 501(c) subsections of the Internal Revenue Code. They include, for instance, civic leagues and social welfare organizations, business leagues, recreational and social clubs, fraternal and voluntary employee beneficiary associations, and State-chartered credit unions. Unlike the 501(c)(3) organizations, the majority of these other exempt organizations are not eligible to receive tax-deductible charitable contributions.

This article is a summary profile of the nonprofit sector over the past 20 years. It begins with a description of the data on nonprofit organizations that are collected from Federal information and tax returns by the Statistics of Income Division of IRS. 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 different types of nonprofit sector organizations--nonprofit charitable organizations, private foundations, and other tax-exempt organizations--and highlights trends with each over the past 20 years. In addition, it describes the nature and extent of "unrelated business income" earned by nonprofit organizations and the tax they pay on it. The article concludes with a discussion of the publications and services that are available through SOI, as well as a discussion of SOI's future plans for its nonprofit sector statistical program.

IRS Data on Nonprofit Sector Organizations

A variety of tax policy issues related to exempt organizations and the nonprofit sector can be addressed using data collected by the IRS from tax and information returns, including the comprehensive sample data from the Statistics of Income (SOI) Division, as well as the less detailed population data from the IRS administrative business master file. This article relies primarily on SOI data, but draws

Alicia Meckstroth is a contract employee working with the Special Studies Branch. Paul Arnsberger is an economist with the Special Studies Special Projects Section. This article was prepared under the direction of Michael Alexander, Chief, Special Projects Section.

on IRS master file data in cases where SOI data are not available. The available data from SOI and the IRS master file are described below.

Statistics of Income Data

The Statistics of Income (SOI) Division constructs population estimates and compiles detailed descriptive data of nonprofit organizations using samples of tax and information returns filed by the organizations. Data--financial and otherwise--are compiled from the income statements, balance sheets, and schedules of the tax and information returns. Data are collected annually by SOI for the following types of nonprofit organizations:

- Nonprofit charitable organizations exempt under subsection 501(c)(3). (Filers of *Form 990, Return of Organization Exempt from Income Tax* or *Form 990-EZ)*

- Private foundations exempt under subsection 501(c)(3). (Filers of *Form 990-PF: Return of Private Foundation (or Section 4947(a)(1) Charitable Trust Treated as a Private Foundation)* [3]

- Other organizations exempt under subsections 501(c)(4)-(c)(9). (Filers of *Form 990, Return of Organization Exempt from Income Tax* or *Form 990-EZ)*

- Organizations exempt under section 501(c) that earned income from activities that were unrelated to the organizations' exempt purpose. (Filers of *Form 990-T, Exempt Organization Business Income Tax Return*)

SOI data are most recently available for Reporting Year 1995 for all of these types of organizations. Since the mid-1970s, data on exempt organizations have been collected by SOI. Private foundation data were first collected by SOI for Reporting Year 1974; other exempt organization data were first collected by SOI for Reporting Year 1975. For the 1975 study, SOI collected sample data for all types of organizations exempt under section 501(c), including those exempt under subsections 501(c)(1), (c)(2), and (c)(10)-(c)(25), for which later SOI data are not available.

Since 1982, SOI data on private foundations and nonprofit charitable organizations have been collected annually (except for 1984). In 1988, the study of nonprofit charitable organizations was expanded to include organizations exempt under subsections 501(c)(4)-(c)(9). Finally, in 1987, an annual study of the unrelated business income of exempt organizations was initiated. Together, all of these studies provide a basis for examining the growth in the American economy's nonprofit sector.

SOI data are based on stratified probability samples, with higher sampling rates for the larger organizations [4]. The data are subject to comprehensive consistency and validity testing and correction procedures to ensure that they are of high quality.

IRS Master File Administrative Data

In addition to the SOI studies, the IRS collects selected data items from *all* exempt organization returns through the administrative Business Master File of exempt organizations. Master File data for Reporting Year 1995 include all those organizations that filed 1995 returns through the end of Calendar Year 1997, or essentially the entire population required to file. Master File data are used for IRS administrative purposes. Unlike the SOI data files, only limited information (for example, total assets, total revenue, and total contributions received) is available from these annual administrative files. In addition, these Master File data are subject only to limited testing; thus, taxpayer filing errors may not always be corrected.

Although this article relies primarily on SOI data for all years, it draws on Master File data in cases where SOI data are not available. That is, since SOI data are not available for 1995 for organizations exempt under subsections 501(c)(1), (c)(2), and (c)(10)-(c)(25), master file data are used to present estimates related to these organizations for that year.

Profile of the Nonprofit Sector

In 1995, there were approximately 1.2 million nonprofit organizations exempt under section 501(c) of the Internal Revenue Code, including private foundations. Of these, only about 355,000 were required to file information returns with the IRS.

The remainder, approximately 845,000, were not required to file either because they were churches, synagogues, or other religious organizations (over 340,000) or because they had annual gross receipts of less than $25,000 [5]. Of those that filed information returns, 51 percent were nonprofit charitable organizations exempt under section 501(c)(3); 13 percent were private foundations also exempt under section 501(c)(3); 36 percent were other types of organizations exempt under subsections 501(c)(1), (c)(2), or (c)(4) - (c)(25), including business leagues, civic leagues, labor organizations, and social clubs.

Nonprofit organizations represent an important and growing force in the American economy. From 1975 to 1995, the total number of all nonprofit organizations that filed returns with the IRS--those organizations exempt under section 501(c) of the Internal Revenue Code--increased by 44 percent to an estimated 355,000. Figure A shows the number of each type of exempt organization for both 1975 and 1995, along with total assets and revenues. The total revenue and total assets reported by exempt organizations more than tripled in real terms from 1975 to 1995 [6,7]. This compares to growth in real GDP of 74 percent during this same 20-year period. The greatest growth came from the nonprofit charitable organizations and private foundations.

The revenues of all organizations exempt under section 501(c) are estimated at 12.4 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 other exempt organizations and private foundations, the revenue of 501(c)(3) nonprofit 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 nonprofit organization to another nonprofit organization. One study, using 1987 data, suggested that the total revenue of 501(c)(3) nonprofit charitable organizations would be approximately 5 percent less each year if adjustments for such double-counting were made [8]. Given this, if revenues of all 501(c)(3) organizations were reduced by 5 percent, their share of GDP would fall from 9.1 percent to an

Figure A

Total Assets and Revenue of All Internal Revenue Code 501(c) Exempt Organizations, 1975 and 1995, in Current and Constant Dollars[1]

[Money amounts are in millions of dollars]

Tax year and type of organization	Total number of exempt organizations[2]	Current dollars: Total assets[3]	Current dollars: Total revenue	Constant dollars: Total assets[3]	Constant dollars: Total revenue
	(1)	(2)	(3)	(4)	(5)
1995					
All exempt organizations	**355,367**	**1,903,148**	**898,533**	**1,770,370**	**835,845**
501(c)(3) nonprofit charitable organizations	180,931	1,143,079	663,371	1,063,329	617,089
501(c)(3) private foundations	47,983	263,386	32,290	245,010	30,037
All other exempt organizations [4]	126,453	496,683	202,872	462,031	188,718
1975					
All exempt organizations	**247,086**	**201,801**	**93,614**	**479,451**	**222,414**
501(c)(3) nonprofit charitable organizations	82,048	108,509	54,149	257,802	128,651
501(c)(3) private foundations	26,889	25,514	3,263	60,618	7,752
All other exempt organizations [4]	138,149	67,778	36,202	161,031	86,011

[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.

[2] The total number of organizations includes only those that were required to file an information return with the IRS.

[3] Assets were generally reported in book value for the 501(c)(3) nonprofit charitable organizations and the other exempt organizations. While assets for the private foundations were reported in book value for 1975, they were reported in fair market value for 1995.

[4] Includes organizations exempt under sections 501(c)(1), (2), and (4) through (25).

NOTE: Data for 1995 for those organizations exempt under subsections 501(c)(3) through (c)(9) are from the 1995 SOI study. For organizations exempt under all other subsections, data are from the IRS's administrative master file. Data for 1975 are from the 1975 SOI study (and, for private foundations, from the 1974 SOI study).

estimated 8.7 percent [9].

Despite their important 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 [10]. For a detailed accounting of the different types of organizations that comprise the nonprofit sector, refer to the *Nonprofit Almanac* [11].

Nonprofit Charitable Organizations Exempt Under Section 501(c)(3)

Nearly 181,000 nonprofit charitable organizations exempt under section 501(c)(3) filed Forms 990 for 1995. These organizations held $1.1 trillion in assets and earned over $663 billion in revenues [12]. In addition, they received nearly $128 billion in contributions, gifts, and grants from a combination of public and private sources. Although more than 75 percent of these nonprofit charitable organizations each held less than $1 million in assets, the vast majority of assets and revenues are accounted for by those organizations that held $50 million or more in assets. These large nonprofit charitable organizations held 76 percent of total assets and accounted for 65 percent of total revenues for 1995.

Beginning with Tax Year 1994, SOI has been classifying nonprofit charitable organizations using the National Taxonomy of Exempt Entities (NTEE), developed by the National Center for Charitable Statistics [13]. This system classifies organizations based on their institutional purpose and major activity. The NTEE system is comprised of 26 groups, which can be aggregated into the 10 major categories shown in Figure B.

There were nearly 72,000 human service organizations in 1995, comprising 40 percent of the total number of nonprofit charities filing returns with the IRS. Educational and health-related organizations, while fewer in number, held the majority of assets, a combined $726 billion. Mutual benefit organizations also held a large amount of assets despite their small numbers. Organizations in the health category received the most revenue for 1995, nearly $365 billion. Eighty-six percent of this revenue was generated by program services, by far the largest portion of revenue of any of the 10 major groups. Some other categories relied heavily on contributions, gifts, and grants (religion-related organization) or membership dues (mutual benefit associations).

Figure B

Selected Items for Nonprofit Charitable Organizations Classified by NTEE Major Category, 1995

[Money amounts are in millions of dollars]

NTEE major category[1]	Number of returns	Total assets	Total liabilities	Total fund balance or net worth	Total revenue	Contributions, gifts, and grants	Program service revenue	Total expenses	Excess of revenue over expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**180,931**	**1,143,079**	**512,383**	**630,696**	**663,371**	**127,743**	**443,052**	**604,645**	**58,725**
Arts, culture, and humanities	19,492	36,777	5,869	30,908	15,441	7,359	4,418	12,858	2,583
Education[2]	27,011	303,352	79,128	224,223	123,035	32,512	66,305	100,836	22,199
Environment, animals	6,340	13,127	3,343	9,785	5,425	2,490	1,481	4,587	839
Health	29,644	423,400	196,118	227,282	364,682	28,674	314,437	344,780	19,901
Human services	71,897	99,216	51,816	47,400	76,565	33,366	36,268	72,716	3,849
International, foreign affairs	2,481	5,561	1,671	3,890	6,565	5,442	706	6,393	173
Mutual, membership benefit	562	166,795	156,618	10,177	35,990	123	10,981	35,496	494
Public, society benefit	15,746	86,767	16,279	70,488	30,795	14,450	7,820	22,647	8,148
Religion-related	7,427	7,853	1,463	6,390	4,796	3,260	637	4,275	522
Unknown, unclassified	332	231	78	154	76	67	([3])	59	17

[1] The National Taxonomy of Exempt Entities (NTEE) is a classification system that uses 26 major field areas that can be aggregated into 10 categories, shown above. It was developed by the National Center for Charitable Statistics. The codes describe the purposes and activities of the organizations. See Notes and References.

[2] Excludes most colleges and universities operated by State and local governments.

[3] Less than $500,000.

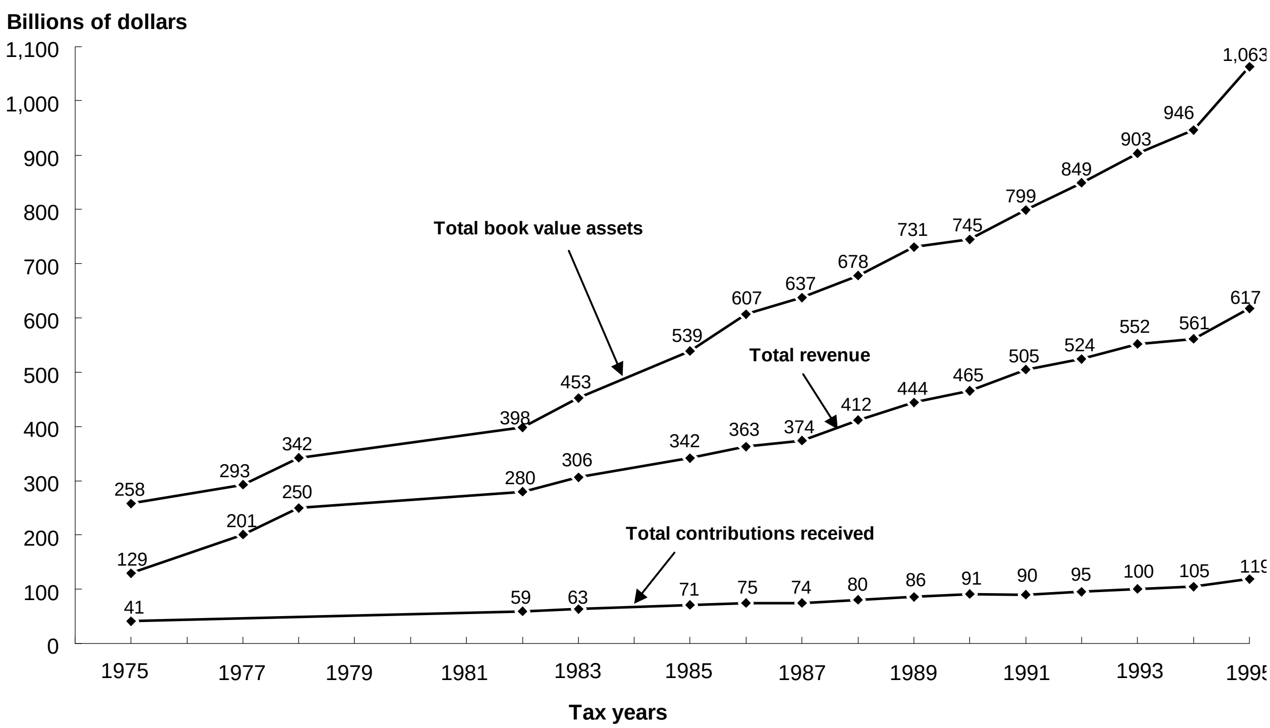
NOTES: Data are from Forms 990 and 990-EZ for nonprofit charitable organizations that are tax-exempt under Code section 501(c)(3) and exclude private foundations, most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding and processing tolerances.

Twenty-Year Nonprofit Charitable Organization Growth
The growth in nonprofit charitable organizations over the period from 1975 to 1995 has been dramatic. During this nearly 20-year period, the number of nonprofit charitable organizations that file Form 990 more than doubled, from over 82,000 for 1975 to nearly 181,000 for 1995. The growth in nonprofit charitable organization assets and revenues has been even more dramatic, as illustrated in Figure C. This figure shows real growth in assets, revenues, and contributions received by nonprofit charitable organization filers. The growth in total assets and total revenues increased by over 312 percent and 380 percent, respectively, from 1975 to 1995. However, the amount of contributions received, which currently comprises about one fifth of total revenue, increased by only 190 percent, less than the growth in assets and revenues.

Revenues of Nonprofit Charitable Organizations
As a group, nonprofit 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. Examples of program service revenue include tuition and fees at educational institutions, hospital patient care charges (including Medicare and Medicaid payments), admissions fees collected by museums or community performing arts groups, and YMCA/YWCA activity fees. As shown in Figure D, program service revenue comprised two-thirds of nonprofit charitable organization

Figure C

Internal Revenue Code Section 501(c)(3) Nonprofit Charitable Organizations: Total Assets, Revenue, and Contributions Received, 1975-1995, in Constant Dollars[1]

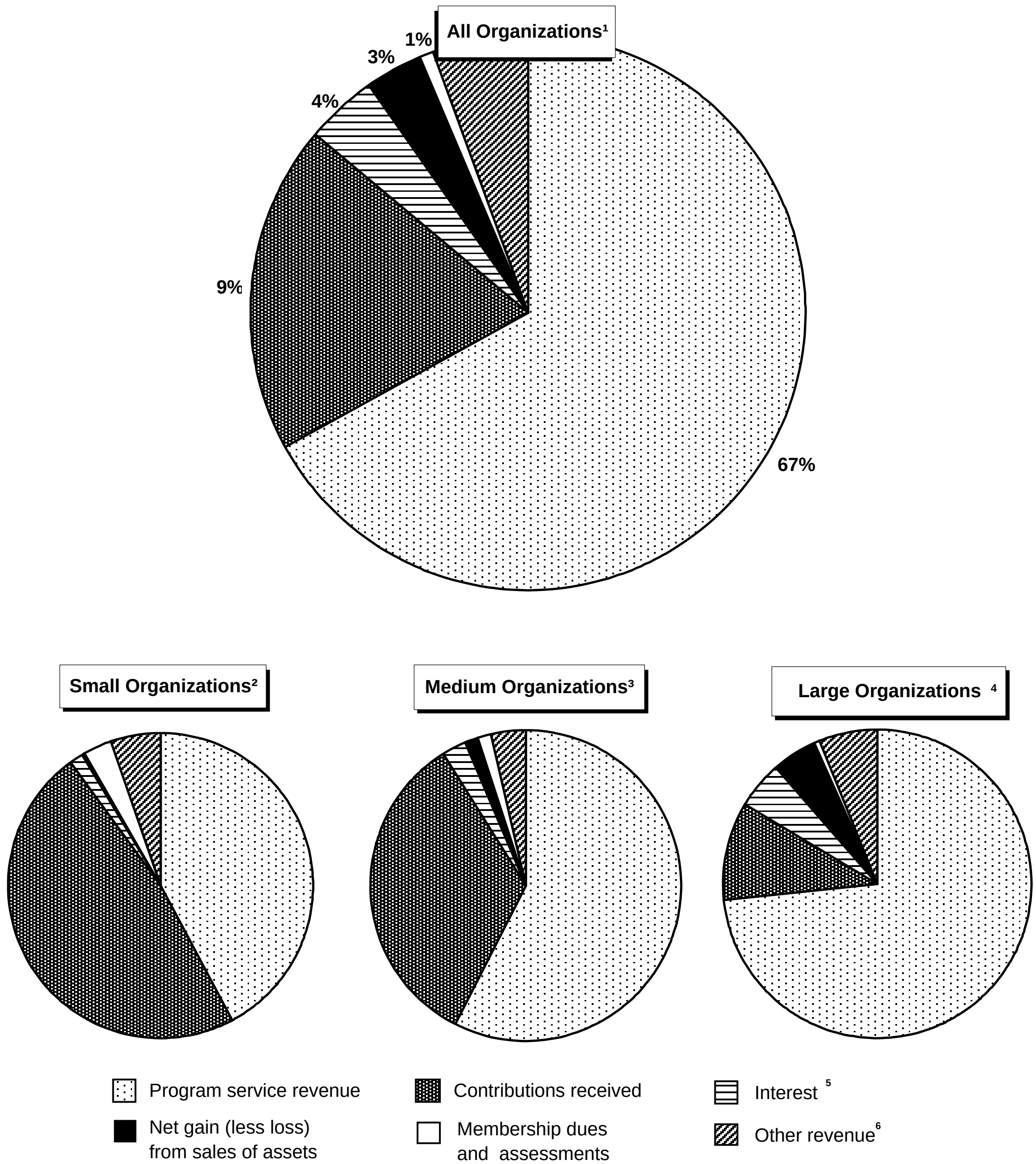


[1] Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Table 7.1.

NOTES: SOI data were used for all years. Total revenue estimates for 1977 and 1978 actually represent total receipts; total revenue was not available from SOI data for these years. Total receipts generally are greater than total revenue by the sum of cost of goods sold and sales and revenue expenses.

Figure D

Sources of Internal Revenue Code Section 501(c)(3) Nonprofit Charitable Organization Revenue, by Size of Organization, 1995



[1] Includes organizations with assets unreported or equal to zero, which are not shown separately.

[2] Small organizations are those holding from $1 to less than $1,000,000 in fair market value of total assets.

[3] Medium foundations are those holding from $1,000,000 to less than $50,000,000 in fair market value of total assets.

[4] Large foundations are those holding $50,000,000 or more in fair market value of total assets.

[5] Sum of "Dividends and interest from securites," and "Interest on savings and temporary cash investments," from Form 990.

[6] Sum of "Net rental income," "Other investment income," "Net income (loss) from special events and activities," "Gross profit (loss) from sales of inventories," and "Other revenue," as reported on the Form 990. "Other income" includes items such as interest on notes receivable not held as investments; interest on loans to officers, directors and other employees; and royalties that do not constitute investment income or program service revenue.

revenue. In general, as the size of the organization increases, so does its reliance on this type of revenue. Since 1975, nonprofit charitable organizations 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, 6 percent. The proportion of revenue that nonprofit charitable organizations receive from contributions has dropped substantially since 1975, when contributions received represented nearly one-third of total revenue.

Of the contributions received by nonprofit charitable organizations, 42 percent were from government grants (not including government contracts), and 58 percent were from nongovernmental sources. These percentages were very similar for 1982 data, the first year SOI collected data on the different types of contributions received by nonprofit organizations. In general, smaller organizations tend to rely much more on contributions, gifts, and grants. Typically, as organizations increase in size, they tend to rely less on contributions and more on program service revenue as their primary source of income.

Assets of Nonprofit Charitable Organizations

The assets of nonprofit charitable organizations are comprised of a variety of investments and other holdings. Figure E reveals that over one half, or 55 percent, of assets are comprised of investments, which include securities, such as corporate stock, corporate bonds, and U.S. and State Government obligations; savings and temporary cash investments; and other miscellaneous investments. Holdings of charitable-purpose land, buildings, and equipment (less accumulated depreciation) comprise one-quarter of total assets. The remaining 19 percent of assets are comprised of net accounts receivable; other types of receivables, such as pledges, grants, and loans; inventories for sale or use; prepaid expenses and deferred charges; cash; and other assets, such as program-related investments (those investments made primarily to accomplish an exempt purpose). Over time, nonprofit charitable organizations, in aggregate, have tended to hold greater proportions of assets as investments in securities.

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.

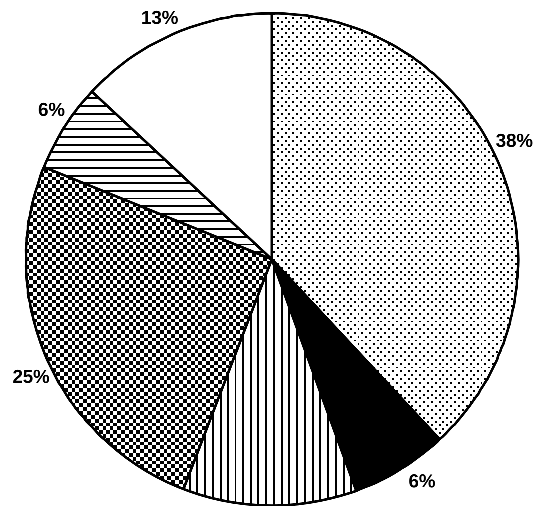
Private Foundations

Nearly 48,000 private foundations filed Form 990-PF returns with the IRS for Reporting Year 1995. These organizations held $263 billion in fair market value assets, received $32 billion in revenues, and distributed $13 billion in charitable gifts and grants to various causes, such as education, health, human services, community development, the arts and humanities, the environment, and research. Although 72 percent of all private foundations each hold less than $1 million in assets, the majority of foundation assets are held by the less than 1 percent of foundations that hold $100 million or more in assets. These very large foundations account for about 60 percent of total foundation assets and half of total foundation revenues.

A private foundation is a nonprofit, tax-exempt corporation, association, or trust, which is 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). Due to their centralized support and control, foundations are more strictly regulated compared to other nonprofit organizations. The majority of foundations are "nonoperating foundations" that generally provide indirect charitable support by making grants to other nonprofit organizations that conduct charitable programs of their own. These nonoperating foundations (92 percent of all foundations) are required to distribute a minimum amount each year for charitable purposes. The required minimum "pay out" amount is based on 5 percent of the value of a foundation's net investment assets. In addition, most foundations are required to pay an annual 2 percent excise tax on their investment income.

Composition of Internal Revenue Code Section 501(c)(3) Nonprofit Charitable Organization Assets, by Size of Organization, 1995

All Organizations



Small Organizations[1]

Medium Organizations[2]

Large Organizations[3]

Investments in securities

Savings and temporary cash investments

Other investments[4]

Charitable purpose land, buildings, and equipment

Accounts receivable

Other assets[5]

[1] Small organizations are those holding from $1 to less than $1,000,000 in fair market value of total assets.

[2] Medium foundations are those holding from $1,000,000 to less than $50,000,000 in fair market value of total assets.

[3] Large foundations are those holding $50,000,000 or more in fair market value of total assets.

[4] Sum of "Investments in land, buildings, and equipment," and Other investments," as reported on the Form 990. "Other investments" include items such as advances; and investments in art, coins, gold, and gems.

[5] Sum of "Cash," "Pledges receivable," "Grants receivable," "Receivables due from officers, directors, trustees, and key employees," "Other notes and loans receivable," "Inventories for sale or use," "Prepaid expenses and deferred charges," and "Other assets" as reported on the Form 990. "Other assets" include, for example, program-related investments, which are investments made primarily to accomplish an exempt purpose, rather than to produce income.

NOTE: Data are from Form 990 filers only.

anizations[3]

vable

nd investments in

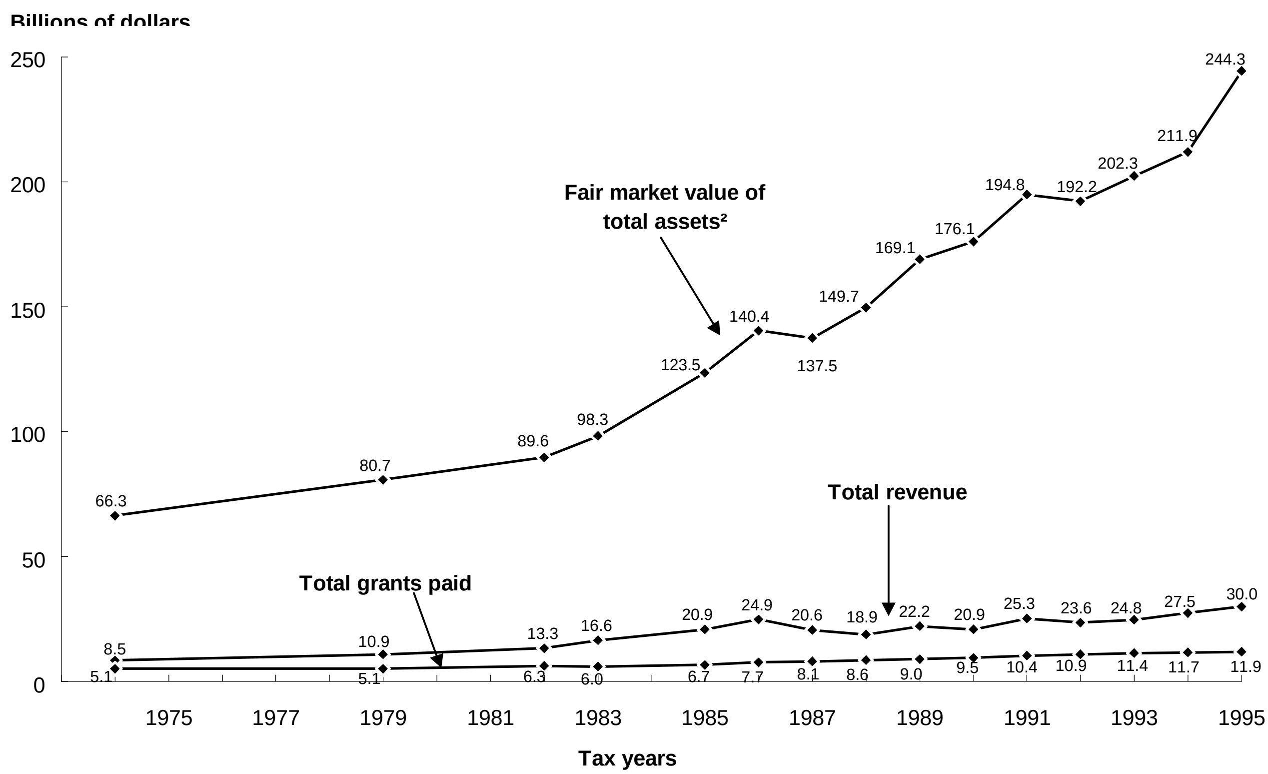
"Inventories for sale
which are

20-Year Private Foundation Growth
Private Foundations rely largely on asset growth, earned income from investments, and contributions received to support their charitable giving. As with the nonprofit charitable organizations, private foundations have grown dramatically over the past 20 years, as illustrated in Figure F. While the number of foundations increased by only 78 percent from 1974 to 1995, foundation fair market value real assets soared, increasing nearly fourfold over the 21-year period. Foundation assets grew relatively steadily each year, with the exception of two years when the value of assets dropped. Since foundations hold the majority of their assets as investments and earn a large portion of their revenue through investment income, they assume more risk than other nonprofit organizations, and, hence, experience greater short-term volatility, but also greater long-term growth. Overall, foundation revenues, measured in real terms, more than tripled from 1974 to 1995, despite year-to-year fluctuations. The growth of foundation assets has helped to support growth in their charitable giving, which increased in real terms by 133 percent from 1974 to 1995.

Revenues of Private Foundations
Private foundation revenue is comprised largely of various types of investment income, as shown in Figure G. 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. And, like other non-

Figure F

Private Foundations: Total Assets, Revenue, and Grants Paid, 1974-1995, in Constant Dollars[1]

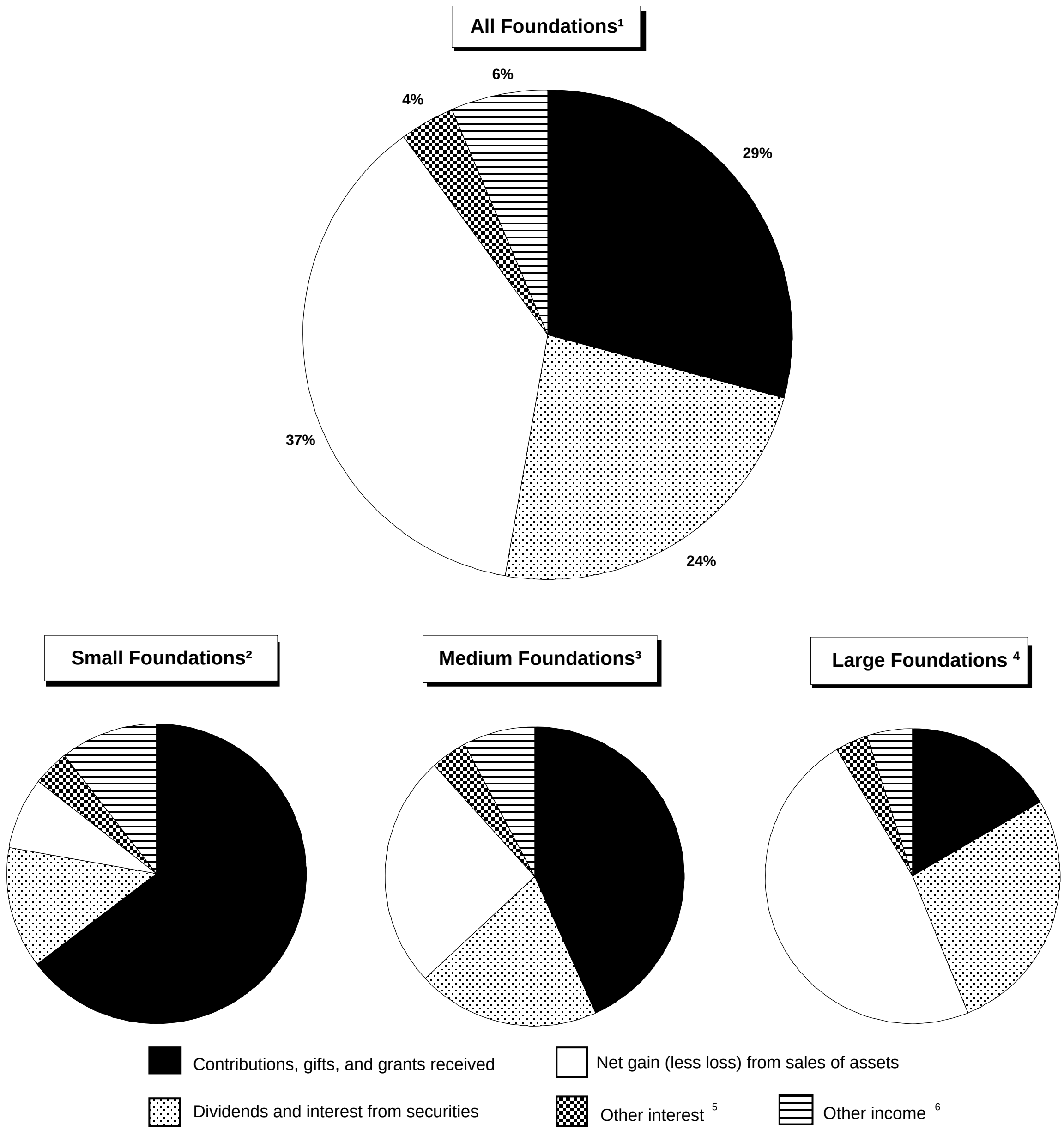


[1] Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Table 7.1.

[2] Data for 1974 on total assets were not available in fair market value.

Figure G

Sources of Private Foundation Revenue, by Size of Foundation, 1995



[1] Includes foundations with assets unreported or equal to zero, which are not shown separately.

[2] Small foundations are those holding from $1 to less than $1,000,000 in fair market value of total assets.

[3] Medium foundations are those holding from $1,000,000 to less than $50,000,000 in fair market value of total assets.

[4] Large foundations are those holding $50,000,000 or more in fair market value of total assets.

[5] Represents "Interest on savings and temporary cash investments," as reported on Form 990-PF.

[6] Includes "Gross rents and royalties" and "Gross profit (or loss) from business activities" as reported on Form 990-PF, as well as items such as imputed interest on deferred payments and program-related investment income.

profit charitable organizations, foundations also rely on contributions as a source of revenue. 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 smaller foundations are made by the larger foundations.

Assets of Private Foundations

Holdings of investment assets dominate total foundation assets, comprising 93 percent of assets for 1995. As illustrated in Figure H, over three-quarters of foundation assets were held as investments in securities, which include corporate stock (58 percent), corporate bonds (8 percent), and government obligations (12 percent). Significant proportions of other types of assets held by foundations include investments in savings and temporary cash investments, 5 percent, and "other" investments, 10 percent. The "other" investment category includes, for example, investments in land, buildings, and equipment, and mortgage loans. Since 1982 (the first year for which detailed data by asset type was available in fair market value), the proportion of assets comprised by investments has remained fairly constant, 92 percent for 1982 compared to 93 percent for 1995.

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.

Private Foundation Investment Performance and Charitable Giving

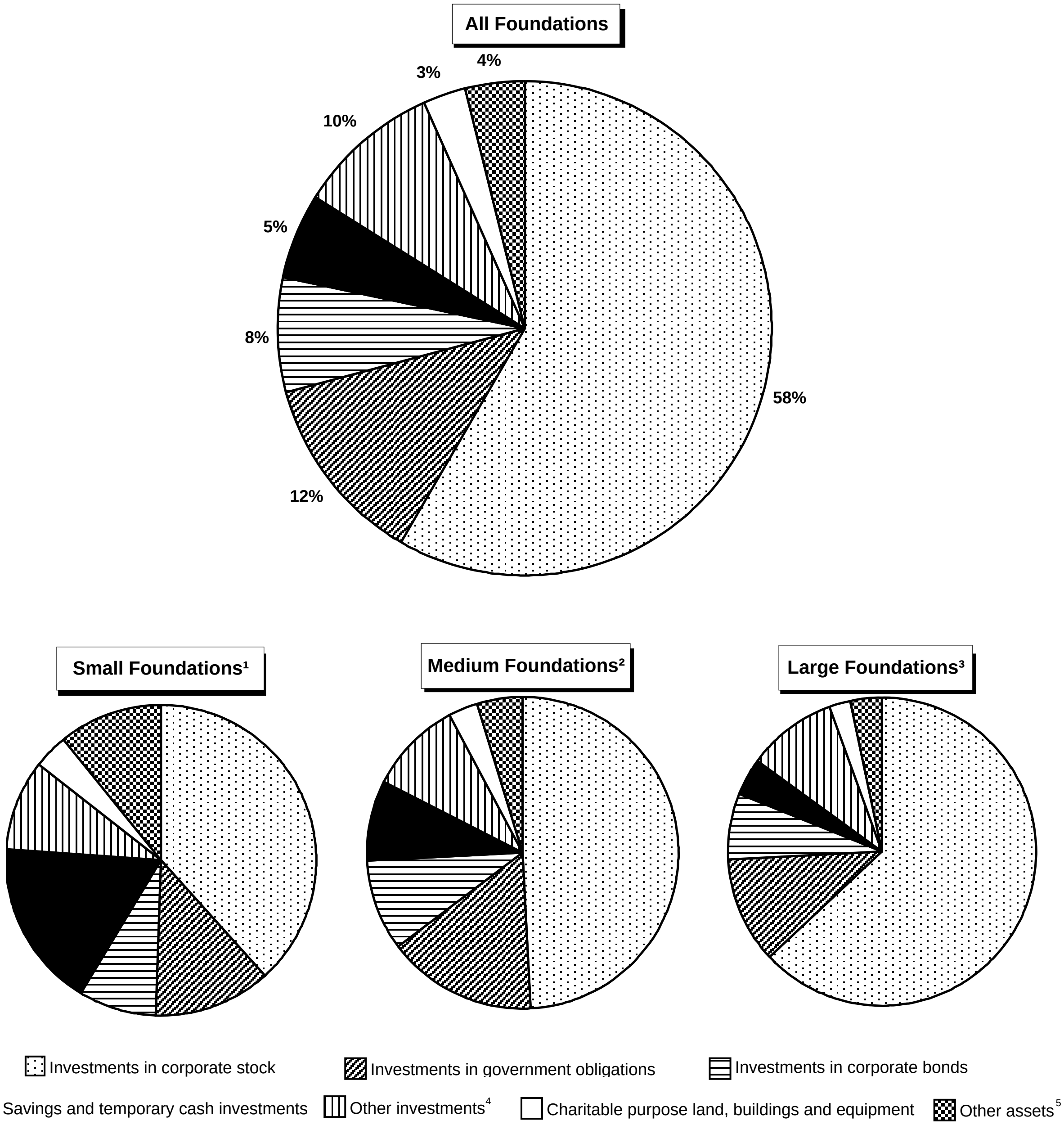
Three measures of foundation behavior are interesting to examine: (1) the realized investment income earned by a foundation on its investment assets, or its "income yield;" (2) total capital appreciation of a foundation's endowment, or its "rate of total return on assets"; and (3) charitable distributions made as a proportion of adjusted net investment assets, or a foundation's "payout rate" [14].

A foundation's net investment income yield is calculated by dividing net investment income by end-of-year fair market value of assets. The median income yield, 5.8 percent for 1995, has remained relatively constant since the mid-1980's, when SOI began calculating the yield regularly. For instance, during the period 1986 to 1995, the median income yield ranged from a low of 4.9 percent for 1994 to a high of 7.7 percent for 1989. Larger foundations typically earn higher income yields. For instance, foundations holding $100 million or more in assets realized a median yield of 8.0 percent for 1995, compared with 4.5 percent for small foundations holding between $1 and $100,000 in assets. Large foundations, compared to small foundations, rely more on investment income as a source of revenue. These foundations also possess the resources to use more sophisticated investment management techniques. Both factors help explain why the larger foundations typically realize higher income yields.

The rate of return, a measure of the total capital appreciation of a foundation, is a more comprehensive measure of investment performance than the income yield. The formula used here to calculate rate of return measures the change in the value of the entire asset base, with considerations for inflows and outflows of money [15]. The formula measures the realized income from assets, investments, and otherwise, as well as the unrealized appreciation or depreciation of fair market value of assets. As calculated using SOI statistics, the median foundation earned a rate of total return of 10.2 percent for 1995. Foundations experience more year-to-year variation in rates of total return, compared to income yields, as fluc-

Figure H

Composition of Private Foundation Assets, by Size of Foundation, 1995



[1] Small foundations are those holding from $1 to less than $1,000,000 in fair market value of total assets.

[2] Medium foundations are those holding from $1,000,000 to less than $50,000,000 in fair market value of total assets.

[3] Large foundations are those holding $50,000,000 or more in fair market value of total assets.

[4] Sum of "Investments in land, buildings, and equipment," "Investments in mortgage loans," and "Other investments," as reported on the Form 990-PF. "Other investments" includes items such as advances; certificates of investment; and investments in art, coins, gold, and gems.

[5] Sum of "Cash: non-interest bearing accounts," "Inventories," "Prepaid expenses and deferred charges," "Accounts receivable, net," "Pledges receivable, net," "Grants receivable," "Receivables due from disqualified persons," "Other notes and loans receivable," and "Other assets" as reported on the Form 990-PF. "Other assets" include, for example, program-related investments, which are investments primarily to accomplish a charitable purpose rather than to produce income.

tuations in the rates of total return tend to coincide with fluctuations in the stock market. This is particularly true for larger foundations, which typically hold a greater proportion of assets as investments, making them able to earn higher returns, but subjecting them to greater risk and volatility in realized returns. For instance, the median foundation earned a rate of return that dropped from 1.9 percent for 1993 to less than 1 percent for 1994, only to rise sharply to 10.2 percent for 1995.

As with income yields, large foundations typically realize higher rates of return compared to their smaller counterparts. For 1995, the largest foundations, or those holding $100 million or more in assets, realized a median rate of 19.8 percent, compared with 1.8 percent for the smallest foundations, or those holding between $1 and $100,000 in assets

The payout rate measures a foundation's "qualifying (charitable) distributions" as a proportion of its net investment assets. Nonoperating foundations are required to pay out 5 percent of the value of their net investment assets each year. Aggregate foundation payout rates are generally very steady from year to year. For instance, from 1986 to 1995, the median payout rate ranged from a low of 6.1 percent for 1993 to a high of 7.2 percent for 1988.

Small foundations tend to distribute more charitable dollars relative to their required amount. Consequently, they tend to have higher payout rates compared to the larger foundations. For instance, the median payout rate for 1995 for the smallest foundations, 10.5 percent, was much higher than the median payout rate for the largest foundations, 5.1 percent. Payout rates for the large and midsized foundations generally are between 5.0 and 6.0 percent, or very close to the required 5 percent. Those of the smaller foundations, which tend to emphasize current charitable giving, rather than long-term endowment growth, are typically much higher than the required rate. The larger foundations, in contrast, typically reinvest a greater proportion of their return on investments, consequently growing their endowments, which helps to ensure increased amounts of charitable giving in the future.

Other Exempt Organizations

Other nonprofit organizations, as discussed here, are those organizations exempt under subsections 501(c)(4)-(c)(25) of the Internal Revenue Code [16]. These other exempt organizations--including civic leagues, business leagues, labor organizations, and recreational clubs, among others--encompass a diverse group of voluntary organizations that provide various services, activities, and programs for different subgroups within the American population. For 1995, over 119,000 "other exempt organizations," those that are exempt filers under sections 501(c)(4) through 501(c)(25), held $455.3 billion in assets and received $192.2 billion in revenues. Unlike the nonprofit charitable organizations that are tax-exempt under section 501(c)(3), most of these other exempt organizations are not eligible to receive tax-deductible contributions. Figure I provides a summary description of the different types of 501(c) organizations and the activities in which they engage. Table 1 provides selected financial data for both 1975 and 1995 for all Form 990 filers exempt under section 501(c) (excluding private foundations). The table presents data in constant, 1992-based dollars.

The section 501(c)(4) through (c)(25) exempt organizations represent a smaller proportion of the nonprofit sector compared to the nonprofit charitable organizations exempt under section (501)(c)(3). For instance, for 1995, these other exempt organizations comprised over 39 percent of section 501(c) Form 990 filers in number, 28 percent in total assets, and 22 percent in total revenue. This represents a smaller share than for 1975, when these organizations comprised 61 percent of the section 501(c) Form 990 filers, held 34 percent of total assets, and received 39 percent of total revenues.

Four types of organizations comprise nearly 70 percent of the total number of organizations exempt under sections 501(c)(4) through 501(c)(25). Based on 1995 data, these include:

501(c)(6): Business leagues, chambers of commerce, and real estate boards, 21 percent

501(c)(4): Civic leagues, social welfare organizations, and local employee associations, 18 percent

501(c)(5): Labor, agricultural, and horticultural organizations, 18 percent

501(c)(7): Social and recreational clubs, 13 percent

Figure I

Types of Exempt Organizations, by Internal Revenue Code Section 501(c)

Internal Revenue Code section	Description of organization	General nature of activities
501(c)(1)	Corporations organized under Act of Congress	Instrumentalities of the United States
501(c)(2)	Title holding corporation for an exempt organization (e.g., Masonic building corporations)	Holds title to property of an exempt organization
501(c)(3)	Charitable, religious, educational, scientific, and literary organizations (including private foundations) and organizations that foster national or international amateur sports competitions, prevent cruelty to children and animals, and test for public safety (e.g., Yale University, Kaiser Foundation Health Plan, United Way, Ford Foundation)	Promotes public welfare (as opposed to private interests) primarily through charitable, religious, educational, scientific, or literary activities
501(c)(4)	Civic leagues, social welfare organizations, and local associations of employees (e.g., Lions Clubs, Rotary Clubs, volunteer fire departments)	Promotes community welfare and activities from which net earnings are devoted to charitable, educational, or recreational purposes
501(c)(5)	Labor, agricultural, and horticultural organizations (e.g., Major League Baseball Players Association, United Auto Workers)	Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency
501(c)(6)	Business leagues, chambers of commerce, and real estate boards (e.g., National Football League, American Bar Association)	Works toward improvement of business conditions in one or more lines of business
501(c)(7)	Social and recreational clubs (e.g., Metropolitan Club, sorority and fraternity chapters)	Pleasure, recreational, and social activities
501(c)(8)	Fraternal beneficiary societies and associations (e.g., B'nai B'rith, Loyal Order of Moose)	Provides for payment of life, sickness, accident, or other benefits to members
501(c)(9)	Voluntary employee beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered under 501(c)(10)) (e.g., U.S. Steel and Carnegie Pension Plan, National Education Association Members Insurance Trust)	Provides for payment of life, sickness, accident, or other benefits to members
501(c)(10)	Domestic fraternal societies (e.g., Knights Templar)	Devotes nets earnings to charitable, fraternal, and other specified purposes, without life, sickness, or accident benefits to members
501(c)(11)	Teachers' retirement fund associations	Fiduciary association that provides payment of retirement benefits
501(c)(12)	Local benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
501(c)(13)	Cemetery companies	Provides burials and incidental related activities to members
501(c)(14)	State-chartered credit unions and mutual reserve funds	Provides loans to members
501(c)(15)	Certain mutual insurance companies or associations	Provides insurance to members substantially at cost
501(c)(16)	Farmers cooperatives organized to finance crop operations	Finances crop operations in conjunction with activities of a marketing or purchasing association
501(c)(17)	Supplemental unemployment benefit trusts	Fiduciary agent that pays supplemental unemployment compensation benefits
501(c)(18)	Employee-funded pension trusts	Provides for payments of benefits under a pension plan funded by employees
501(c)(19)	War veterans organizations (e.g., American Legion Posts)	Provides services and activities for war veterans

NOTE: A small number of other organizations are also exempt under subsections 501(c)(20)-(25). These include: prepaid legal service funds exempt under 501(c)(20); black lung benefit trusts exempt under 501(c)(21); withdrawal liability payment funds exempt under 501(c)(22); associations of past and present members of the armed forces founded before 1880, exempt under 501(c)(23); trusts described in section 4049 of the Employee Retirement Income Security Act of 1974 exempt under 501(c)(24); and title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or benefit interest exempt under 501(c)(25). Those organizations exempt under 501(c)(20) were only exempt for reporting years before June 20, 1992.

Other types of organizations, while relatively small in number, hold large portions of other exempt organization assets. State-chartered credit unions exempt under section 501(c)(14), for instance, comprise 33 percent of total other exempt organization assets, but represent only 1 percent in number. Similarly, local benevolent life insurance associations exempt under section 501(c)(12) comprise 11 percent of total other exempt organization assets, but represent only 3 percent in number. Two other types of organizations also hold relatively large shares of other exempt organization assets: voluntary employee beneficiary associations exempt under section (501)(c)(9), 15 percent; and civic leagues, social welfare organizations, and local employee associations exempt under section 501(c)(4), 10 percent.

The majority of the revenues of other exempt organizations are attributable to the 501(c)(9) voluntary employee beneficiary associations, 37 percent, and three other types of other exempt organizations that each represent from 10 to 15 percent of total revenue: section 501(c)(4) civic leagues, social welfare organizations, and local employee associations; section 501(c)(12) local benevolent life insurance associations; and section 501(c)(6) business leagues, chambers of commerce, and real estate boards.

20-Year Profile of Other Exempt Organizations

The other exempt organizations have not realized the same levels of growth as nonprofit charitable organizations and private foundations over the past two decades. In fact, the number of these organizations actually fell from 1975 to 1995 by 11 percent [17]. Nevertheless, real assets and revenues increased by 197 and 113 percent, respectively, well below the rates of increase of other section 501(c)(3) nonprofit organizations. Over the 20-year period, the biggest decrease in the number of organizations was for the 501(c)(5) labor, agricultural, and horticultural organizations, which fell by over 7,000 organizations, or 25 percent. The greatest increase in the number of organizations occurred among the 501(c)(6) business leagues, chambers of commerce, and real estate boards, which grew by nearly 8,000 organizations, or 46 percent.

In terms of assets, the greatest increases were realized by two types of organizations: State-chartered credit unions and voluntary employee beneficiary associations, 501(c)(14) and 501(c)(9), respectively. Over the 1975-1995 period, these organizations realized real asset gains of 420 percent and 504 percent, respectively. In terms of revenues, the greatest increases were realized by the voluntary employee beneficiary associations and the 501(c)(12) local benevolent life insurance associations, which, respectively, received over 469 and 333 percent more in real revenues for 1995 compared to 1975. Not all other exempt organizations, however, saw their revenues increase over the 20-year period. For instance, the revenues of the 501(c)(4) civic leagues, social welfare organizations, and local employee associations fell by 24 percent, as their receipts from member dues and assessments dropped dramatically.

Revenues and Assets of Other Exempt Organizations

Other exempt organizations rely largely on program service revenue as a source of income. Program service revenue comprised 69 percent of total other exempt organization revenue for 1995, nearly the same percentage as for the 501(c)(3) nonprofit charitable organizations. Program service revenue represents income from fees collected from programs and activities that are operated to support the organizations' tax-exempt purposes. Examples of program service revenue include interest income on loans a credit union makes to its members, payments received by voluntary employee beneficiary associations from participants or employers of participants for health and welfare benefits coverage, insurance premiums received by a fraternal beneficiary society, and registration fees received in connection with a meeting or convention. It also includes income from program-related investments, which are investments made for the primary purpose of accomplishing an exempt purpose consistent with the organization's exempt status--for example, scholarship loans or low-interest loans to charitable organizations or indigent persons.

Over the past 20 years, other exempt organizations have tended to rely increasingly on program service revenue as their primary source of revenue. At the same time, their overall reliance on contributions received and member dues and assessments has fallen. For instance, for 1975, member dues and assessments comprised over half of total other exempt organization revenue, and contributions received, one-tenth. However, by 1995, dues and assessments comprised only 14 percent of total other exempt organization revenue, and contributions received, only 3 percent. For 1995, program service revenue was the major source of revenue for many exempt organizations, including section 501(c)(8) fraternal beneficiary societies, section 501(c)(9) voluntary employee beneficiary associations, section 501(c)(12) local benevolent life insurance associations, and section 501(c)(14) State-chartered credit unions.

Still, some exempt organizations do rely on member dues and assessments, rather than program service revenue, as their primary source of income. For instance, section 501(c)(5) labor, agricultural, and horticultural organizations and section 501(c)(7) social and recreational clubs both receive nearly 60 percent of revenue from member dues and assessments, and less than 26 percent from program service revenue. Section 501(c)(6) business leagues, chambers of commerce, and real estate boards and section 501(c)(10) domestic fraternal societies also receive more from dues and assessments than from program services.

Detailed SOI data on the different types of assets held by exempt organizations are only available at this time for section 501(c)(3) to (c)(9) organizations. Using 1995 SOI data, both section 501(c)(8) fraternal beneficiary societies and section 501(c)(9) voluntary employee beneficiary associations held over half of their assets as investments in securities, 58 percent and 65 percent, respectively. As a basis for comparison, section 501(c)(3) nonprofit charitable organizations held 38 percent of their assets as investments in securities. In contrast to organizations that hold large proportions of assets as investments in securities, section 501(c)(7) social and recreational clubs hold very few of their assets as investments in securities, only 3 percent. These social and recreational clubs hold 66 percent of their assets in the form of charitable-purpose land, buildings, and equipment. The other exempt organizations that are in the section 501(c)(4) through (c)(9) group have far fewer holdings in land, buildings, and equipment.

Exempt Organizations' Unrelated Business Income

The similarities between certain types of nonprofit organizations (for example, 501(c)(3) hospitals) and their for-profit counterparts have raised many questions regarding tax-exempt status. As competition with other entities has increased, some nonprofit organizations have begun to earn supplementary income, which is considered unrelated to their charitable purpose and on which the unrelated business income tax is levied.

Unrelated business income (UBI) is defined as income from a trade or business that is regularly carried on by an exempt organization and is not substantially related to carrying out the exempt purpose or function for which the organization has tax-exempt status. Congress established the unrelated business income (UBI) tax as part of the Revenue Act of 1950. The UBI tax initially applied only to organizations exempt under sections 501(c)(3), (5), (6), (9), and (15). The law's purpose was to restrict the potential for unfair competition between nonprofit organizations and taxable for-profit businesses that provide similar services. In addition to section 501(c) organizations, the unrelated business income tax provisions apply to section 401(a) Individual Retirement Arrangements and section 408(e) qualified pension, profit-sharing, and stock bonus plans. The Tax Reform Act of 1969 revised and expanded this tax on unrelated business income to include all 501(c) organizations, except those U.S. Government instrumentalities exempt under section 501(c)(1).

Unrelated business taxable income is gross unrelated business income, less deductions directly connected with carrying on the trade or business, and less certain other deductions. The unrelated business income tax is determined based on the corporate or trust tax rates that are in effect for a given tax year. For Tax Year 1995, over 36,400 exempt organizations reported $6.3 billion of "gross unrelated business income" from regular business activities that were not substantially related to their exempt purposes. After offsetting gross UBI with $7.3 billion of total deductions, these organizations reported an aggregate net deficit of $1.0 billion. After considering these deductions, half of these organizations reported positive unrelated business *taxable* income (UBTI) and were required to pay the unrelated business income tax. These 18,200 organizations reported positive UBTI of $893.0 million. After adjustments for other taxes and certain credits were made to the $276.6 million of reported unrelated business income tax, nonprofit organizations incurred a total tax liability of $277.5 million. The UBI earned by exempt organizations most commonly falls into the major industrial categories services and finance, insurance, and real estate. Over 80 percent of organizations that reported gross UBI for 1995 received at least some of their income from activities falling into one or both of these categories.

Sixty-two percent of all exempt organizations that filed Form 990-T for Reporting Year 1995 fell into one of three categories: section 501(c)(3) nonprofit charitable organizations (including private foundations), 27 percent; section 501(c)(7) social and recreational clubs, 18 percent; and section 501(c)(6) business leagues, chambers of commerce, and real estate boards, 17 percent. Since section 501(c)(3) organizations represent the largest proportion of exempt organizations, it is not surprising that they also represent the largest proportion of Form 990-T filers. (Nonetheless, based on the returns filed, only 4 percent of all section 501(c)(3) organizations reported UBI for 1995. However, large proportions of both section 501(c)(6) and section 501(c)(7) organizations reported UBI for 1995, 24 percent and 41 percent, respectively. In addition, relatively large proportions of section 501(c)(8) fraternal beneficiary associations and section 501(c)(19) war veterans' organizations also reported gross unrelated business income for 1995, 14 percent and 28 percent, respectively.)

Publications, Services, and Plans for SOI's Nonprofit Sector Statistical Program

Through its nonprofit sector statistical program, the Statistics of Income Division of IRS provides a wide array of data and other information on the various types of organizations that comprise the nonprofit sector. In addition, SOI collects data on related topics, such as charitable giving, charitable bequests, and tax-exempt bonds, as well as a wealth of data in the areas of individual and corporate income and taxes. These data and information are available through publications, microdata tapes, an electronic bulletin board, and a worldwide website. SOI has ongoing plans to expand and enhance its current nonprofit-sector program. This section describes SOI's publications and statistical services and provides information on how to obtain these publications and access these services. It also discusses recent enhancements to SOI's nonprofit sector statistical program, as well as future plans in this area.

Publications

Data and analyses from all of SOI's nonprofit studies are published in the quarterly *Statistics of Income Bulletin* [18]. In addition, SOI has twice consolidated its nonprofit data and reports in two published volumes of the *Compendium of Studies of Tax-Exempt Organizations* [19]. The first volume encompasses research on Reporting Years 1974 to 1987, SOI's earliest work related to the nonprofit sector. It includes over 20 reprinted articles and extensive data. The second volume of the *Compendium* focuses on Reporting Years 1986 to 1990, consolidating SOI's more recent research on nonprofit charitable organizations, private foundations, charitable giving, and section 501(c)(4)-(c)(9) other exempt organizations. It includes 12 reprinted articles and extensive data. Both volumes include articles published in the *Statistics of Income Bulletin,* as well as those published by SOI staff in the *Proceedings of the American Statistical Association*, the *Independent Sector's Spring Research Forum Papers*, and the *Journal of Nonprofit Management and Leadership.*

Statistical Services

Copies of SOI's microdata tapes for nonprofit organizations are available for purchase from the Statistics of Income Division. Because the Form 990 and Form 990-PF are open to public inspection, these tapes which contain identifiable records, are available for public use. Because tax returns on the unrelated business income of nonprofit organizations are not publicly disclosed, data from Form 990-T returns are not available on tape. Special tabulations can be prepared from all of these sources on request.

Other SOI studies may also be of interest to analysts of the nonprofit sector. For example, annual data are available on individual and corporate taxes. In addition, certain files of individual tax returns include data on charitable contributions. And, data on estates, which include information on charitable bequests, are published periodically.

In addition to microdata tapes, SOI offers an electronic bulletin board and a site on the worldwide web. Over 1,200 files from various IRS sources and SOI studies, including nonprofit charitable organizations, private foundations and charitable trusts, and other organizations exempt under sections 501(c)(4) through 501(c)(9), are all currently available for public use on a reimbursable basis on the SOI electronic bulletin board. In addition, there are over 700 public use files and other statistical data available on the IRS web page [20].

Plans for SOI's Nonprofit Sector Statistical Program

SOI continues to respond to policy analysis needs related to the nonprofit sector by developing and improving strategies for coding, sampling, and compiling data. Data collection and analysis plans include:

Integrating the National Taxonomy of Exempt Entities (NTEE) coding system with SOI's nonprofit sector studies and the IRS master file of exempt organizations. The National Taxonomy of Exempt Entities was developed as a classification system by the National Center for Charitable Statistics; it uses 26 major groups, which can be aggregated into 10 categories. SOI has applied the codes to its data files, beginning with the Reporting Year 1994 study. In addition, IRS added the NTEE coding system to the exempt organization entity section of the Master File, determining a code for each organization at the time that its application for exemption is approved.

Revising the Standard Industrial Classification (SIC) system. SOI recently assisted with developing the North American Industry Classification System (NAICS) coding system to better reflect the activities of nonprofit organizations. Beginning with Tax Year 1998, tax-exempt organizations will classify activities that generate Unrelated Business Income (UBI) using NAICS codes on Forms 990, 990-PF, and 990-T.

Sampling Form 990 and Form 990-T studies using an integrated matching program. Beginning with Reporting Year 1993 data, SOI integrated its samples of Form 990 and Form 990-T filers. This allows for the examination of comparable information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for organizations filing both forms, including the 501(c)(3) nonprofit charitable organizations and the 501(c)(4) through (c)(9) other exempt organizations.

Sampling private foundation returns based on fair market value of assets. Beginning with Reporting Year 1994 data, at the request of several users of the data, the SOI sample of private foundation returns was stratified based on fair market value, rather than book value, of total assets. Given that foundation subgroup analyses use asset categories that are constructed using fair market value, this revised sampling strategy will lead to improved subgroup estimates.

Imaging exempt organization returns. The Statistics of Income Division and the office of Employee Plans and Exempt Organizations of the Internal Revenue Service have been working together to develop a new imaging system that will facilitate public access to exempt organizations' information returns. Beginning in July 1998, all Forms 990 and 990-PF filed by organizations classified as tax-exempt under subsection code 501(c)(3) of the Internal Revenue Code are being electronically scanned and their images stored at the Ogden Service Center on optical disks. When the system is in full production, researchers will be able to examine financial data for these organizations within 2 months of the date they file with the IRS. Making tax-exempt organizations' information returns more easily available to the public should increase the quality and accuracy of reporting. It is hoped that increased public accessibility and awareness of the financial reporting of these tax-exempt organizations will lead to self policing and result in better overall compliance at minimal costs to the Service.

Comparing nonprofit data. SOI plans to study nonprofit sector data from other statistical sources (e.g., the IRS Business Master file, the Commerce Department's Bureaus of Census and Economic Analysis, and the Federal Reserve Board), reconcile these with SOI data, and publish the results in a future issue of the *SOI Bulletin*.

Notes and References

[1] Wolpert, Julian, *Patterns of Generosity in America: Who's Holding the Safety Net*, A Twentieth Century Fund Press, New York, NY, 1993.

[2] U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Table 2A.

[3] Since Reporting Year 1989, SOI has also collected data on section 4947(a)(1) charitable trusts that also file Forms 990-PF. These organizations, like private foundations, have exclusively charitable interests. However, unlike foundations and other 501(c)(3) organizations, they are not exempt from Federal income tax. Charitable trusts are subject to the same requirements as private foundations, including the excise tax provisions and the charitable payout requirement. However, unlike foundations, charitable trusts are not required to receive formal recognition as tax-exempt organizations from the IRS. Most were originally formed as 4947(a)(2) split-interest trusts that, at one time, had one or more noncharitable beneficiaries. The charitable trusts must pay an annual tax on their income that is not distributed for charitable purposes. For 1995, over 2,700 charitable trusts reported nearly $3.7 billion in total assets, earned $411.8 million in total revenues, and distributed $222.3 million in total charitable contributions, gifts, and grants.

[4] Sample data on the 501(c)(3) nonprofit 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 asset, with sampling rates ranging from 0.45 percent for the small 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 6,400 entities (5,600 foundations and 800 4947(a)(1) charitable trusts that file Form 990-PF) that were selected from a population of approximately 52,000 (49,800 foundations and 2,200 trusts). (The 4947(a)(1) charitable trusts that file Form 990-PF are described in footnote 2 above.) The sample was stratified based on both the size of fair market value of total assets and the type of organization (either a foundation or a trust). 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.

Sample data on the 501(c)(4) through (c)(9) exempt organizations for Reporting Year 1995 are based on a stratified probability sample of approximately 8,800 returns, selected from a population of approximately 104,700. The sample was stratified based on book value of total assets. Sampling rates ranged from 2.0 percent for the small asset classes to 100 percent for organizations with assets of $2.5 million or more.

Sample data on the unrelated business income (UBI) of exempt organizations for Reporting Year 1995 are based on a stratified probability sample of approximately 7,300 returns drawn from a population of approximately 36,400 returns. The sample was stratified based on the size of gross unrelated business income. Depending on the amount of UBI, sampling rates ranged from a minimum of 2.6 percent for the lower income returns to a maximum of 100 percent for the higher income returns. In addition, beginning with Reporting Year 1993, the Form 990-T sample was integrated with the Form 990 sample in order to gather comparable information on income and expenses for organizations that filed both forms, including both the 501(c)(3) nonprofit charitable organizations and the 501(c)(4) through (c)(9) other exempt organizations.

[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, p. 39.

[6] 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 3.

[7] The small increase in the number of exempt organizations during the past 20 years, relative to the large increases in assets and revenues, is due, in part, to changes in the filing requirements that raised the minimum level of gross receipts required for filing from $5,000 to $10,000 in 1976, and from $10,000 to $25,000 in 1982.

[8] 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.

[9] In other parts of this article, when discussing nonprofit charitable organization revenue, adjustments are not made for double-counted contributions.

[10] 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.

[11] See footnotes 5 and 8.

[12] Instructions to Form 990 for tax-exempt organizations state that assets are generally to be reported in terms of book value. Investments in securities, however, may be reported as either book value or fair market value.

[13] For information on the National Taxonomy of Exempt Entities classification system, see Hodgkinson, Virginia A.; Weitzman, Murray S.; et al., *Nonprofit Almanac, 1996-1997*: *Dimensions of the Independent Sector*, San Francisco: Jossey-Bass, Inc., 1996; Stevenson, David R.; Pollak, Thomas H.; and Lampkin, Linda M.; et al., *State Nonprofit Almanac 1997: Profiles of Charitable Organizations*, Washington, DC: The Urban Institute, 1997; and *The National Taxonomy of Exempt Entities Manual*, Washington, DC: The Urban Institute, 1997.

The 26 major group areas of the National Taxonomy of Exempt Entities (NTEE) can be grouped according to 10 major categories. They are listed below.

I. Arts, Culture, and Humanities (NTEE area A)

II. Education (B)

III. Environment and Animals
Environmental Quality, Protection, and Beautification (C)
Animal-Related (D)

IV. Health
Health--General and Rehabilitative (E)
Mental Health, Crisis Intervention (F)
Diseases, Disorders, Medical Disciplines (G)
Medical Research (H)

V. Human Services
Crime, Legal-Related (I)
Employment, Job-Related (J)
Food, Agriculture, and Nutrition (K)
Housing, Shelter (L)
Public Safety, Disaster Preparedness, and Relief (M)
Recreation, Sports, Leisure, Athletics (N)
Youth Development (O)
Human Services--Multipurpose and Other (P)

VI. International, Foreign Affairs (Q)

VII. Public, Society Benefit
Civil Rights, Social Action, Advocacy (R)
Community Improvement, Capacity Building (S)
Philanthropy, Voluntarism, and Grantmaking Foundations (T)
Science and Technology Research Institutes, Services (U)
Social Science Research Institutes, Services (V)
Public, Society Benefit--Multipurpose and Other (W)

VIII. Religion-Related (X)

IX. Mutual/Membership Benefit (Y)

X. Unknown, Unclassified (Z)

[14] These measures are calculated only for the nonoperating foundations, since only they are subject to the charitable payout requirement.

[15] The rate of return formula used here is the same as that developed and used by Salamon and Voytek in their studies on foundation assets. See Salamon, Lester and Voytek, Kenneth, *Managing Foundation Assets: An Analysis of Foundation Investment and Payout Procedures and Performance,* Washington, DC: The Council on Foundations, 1989, p. 32. The formula is as follows:

Rate of Total Return =

[Ending Fair Market Value of Assets
- Beginning Fair Market Value of Assets
- Contributions Received
+ Grants Paid
+ Operating and Administrative Expenses
+ Excise Tax Paid on Net Investment Income]

DIVIDED BY

[Beginning Fair Market Value of Assets
+ 50% of Contributions Received]

To calculate the rate of total return, samples of private foundation information returns for consecutive years had to be matched in order to analyze both the beginning-of-year and end-of-year fair market value data. The beginning-of-year fair market value of assets for any given year equals the ending fair market value reported on the prior year's information return. Thus, in order to provide a consistent form of measurement by which to compare rates of total return among different years, the ending fair market value of asset amounts (reported for both the year subject to the computation and the prior year) were used to compute the rate of return. In order to obtain an inflation-adjusted real rate of return, the figure equaling the beginning-of-year fair market value of assets was adjusted using the GDP chain-type price index. (See footnote 6.)

[16] Also included in this discussion are the small number of exempt organizations with unspecified subsection codes. However, those organizations exempt under subsections 501(c)(1) and (c)(2) are not included in this discussion (although they are included in Table 1). Subsection 501(c)(1) organizations are corporations organized under an Act of Congress to act as instrumentalities of the United States. Subsection 501(c)(2) organizations are title-holding corporations that generally hold title to the property of other exempt organizations.

[17] This decline can be explained, in part, due to changes in the filing requirements that raised the minimum level of gross receipts required for filing from $5,000 to $10,000 in 1976, and from $10,000 to $25,000 in 1982.

[18] For the most recent published data on 501(c)(3) nonprofit charitable organizations and 501(c)(4) through (c)(9) exempt organizations, see Hilgert, Cecelia, "Charities and Other Tax-Exempt Organizations, 1994," *Statistics of Income Bulletin*, Spring 1998, Volume 17, Number 4. For recent data on private foundations, see Arnsberger, Paul, "Private Foundations and Charitable Trusts, 1994," *Statistics of Income Bulletin*, Fall 1997, Volume 17, Number 2. For recent data on the unrelated business income of exempt organizations, see Riley, Margaret, "Exempt Organization Business Income Tax Returns: Highlights and an Analysis of Exempt and Nonexempt Finances, 1994," *Statistics of Income Bulletin*, Spring 1998, Volume 17, Number 4.

[19] U.S. Department of Treasury, Internal Revenue Service, *Statistics of Income—Compendium of Studies of Tax-Exempt Organizations, 1974-1987*, Statistics of Income Division, U.S. Government Printing Office Publication 1416 (7-91), Washington, DC, 1991, and U.S. Department of Treasury, Internal Revenue Service, *Statistics of Income—Compendium of Studies of Tax-Exempt Organizations, 1986-1992, Volume 2,* Statistics of Income Division, U.S. Government Printing Office Publication 1416 (8-93), Washington, DC, 1993. Both volumes of the Compendium are available from the Statistics of Income Division.

[20] To order copies of any of SOI's publications or to request any of the items or services discussed above, contact SOI's Statistical Infor-

mation Services Office at (202) 874-0410 (phone), (202) 874-0964 (fax), or via electronic mail **(sis@soi.irs.gov)**. Alternatively, write to the Director, Statistics of Income, OP:RS:S, Internal Revenue Service, P.O. Box 2608, Washington, DC 20013. To access the electronic bulletin board, call (202) 874-9574. To access the Internal Revenue Service's web site, where SOI is represented, go to http://www.irs.ustreas.gov/prod/tax_stats.

Source: Statistics of Income Bulletin, IRS Publication 1136, Fall 1998.

All 501(c) Exempt Organizations, Excluding Private Foundations: Number of Organizations and Selected Financial Information, by Type of Organization, 1975 and 1995, SOI and Master File Data

[All figures are estimates based on samples, -- money amounts are in millions of constant dollars.]

IRC section	Type of organization	Number of organizations[1]	Total assets	Total liabilities	Total revenue[2]	Program service revenue	Contributions gifts, and grants	Gross dues and assessments	Total expenses
	1995								
	Total	**307,384**	**1,525,359**	**666,551**	**805,807**	**542,199**	**124,936**	**31,015**	**730,910**
501(c)(1)	Corporations organized under Act of Congress	2	138	125	11	9	--	--	10
501(c)(2)	Title holding companies	2,990	15,321	2,704	2,231	469	41	36	826
501(c)(3)	Charitable, religious, educational, and scientific organizations	180,931	1,063,328	476,635	617,089	412,141	118,831	5,719	562,460
501(c)(4)	Civic leagues, social welfare, and local associations of employees	21,983	43,086	30,217	26,589	19,884	2,324	1,608	25,544
501(c)(5)	Labor, agricultural, and horticultural organizations	21,242	18,908	2,885	13,135	3,364	433	7,846	11,758
501(c)(6)	Business leagues, chambers of commerce and real estate boards	25,460	25,985	12,813	19,531	7,246	1,465	8,450	17,708
501(c)(7)	Social and recreational clubs	15,919	11,450	3,372	6,619	1,162	74	3,884	6,422
501(c)(8)	Fraternal beneficiary societies	7,973	48,800	40,308	9,860	8,492	87	304	9,302
501(c)(9)	Voluntary employee beneficiary associations	9,818	61,700	15,444	66,986	58,695	8	2,322	61,029
501(c)(10)	Domestic fraternal societies	2,581	1,742	127	522	60	55	117	463
501(c)(11)	Teachers retirement fund associations	5	208	14	26	3	--	5	12
501(c)(12)	Local benevolent life insurance associations	3,333	47,142	29,830	20,224	17,467	580	196	18,647
501(c)(13)	Cemetery companies	1,862	4,830	589	848	233	20	3	582
501(c)(14)	State chartered credit unions	1,645	137,842	41,859	10,528	6,450	379	143	7,952
501(c)(15)	Certain mutual insurance companies or associations	691	1,741	2,238	380	150	([3])	58	248
501(c)(16)	Farmers co-ops organized to finance crop operations	14	298	240	26	17	([3])	([3])	20
501(c)(17)	Supplemental unemployment benefit trusts	166	377	33	284	220	8	29	269
501(c)(18)	Employee funded pension trusts	2	2,296	10	375	55	--	--	126
501(c)(19)	War veterans organizations	5,941	1,618	378	836	151	77	110	786
501(c)(20-25)	Other organizations	756	15,515	3,801	2,061	602	244	18	518
	Organizations not specified	4,070	23,034	2,929	7,645	5,329	310	168	6,227
	1975								
	Total	**220,197**	**418,832**	**179,936**	**214,508**	**n.a.**	**48,859**	**46,149**	**205,915**
501(c)(1)	Corporations organized under Act of Congress	665	14,296	13,795	1,224	n.a.	25	63	1,143
501(c)(2)	Title holding companies	3,263	3,921	2,026	963	n.a.	54	54	953
501(c)(3)	Charitable, religious, educational, and scientific organizations	82,048	257,802	86,328	128,650	n.a.	40,650	3,629	121,763
501(c)(4)	Civic leagues, social welfare, and local associations of employees	28,064	30,238	21,729	34,927	n.a.	1,617	20,329	35,260
501(c)(5)	Labor, agricultural, and horticultural organizations	28,258	9,627	1,230	11,270	n.a.	284	7,683	10,995
501(c)(6)	Business leagues, chambers of commerce and real estate boards	17,530	8,241	3,643	7,645	n.a.	546	5,122	7,652
501(c)(7)	Social and recreational clubs	18,228	8,029	2,760	4,514	n.a.	76	2,570	4,488
501(c)(8)	Fraternal beneficiary societies	12,066	14,960	10,157	3,399	n.a.	108	1,710	3,183
501(c)(9)	Voluntary employee beneficiary associations	4,285	10,220	3,581	11,780	n.a.	4,575	3,916	11,503
501(c)(10)	Domestic fraternal societies	4,674	2,858	951	714	n.a.	51	224	650
501(c)(11)	Teachers retirement fund associations	49	562	74	91	n.a.	*14	*10	53
501(c)(12)	Local benevolent life insurance associations	4,975	25,477	19,289	4,669	n.a.	40	367	4,290
501(c)(13)	Cemetery companies	1,518	2,481	527	430	n.a.	12	5	367
501(c)(14)	State chartered credit unions	1,610	26,506	12,602	2,297	n.a.	*3	20	1,372
501(c)(15)	Certain mutual insurance companies or associations	864	273	15	135	n.a.	([3])(*)	60	118
501(c)(16)	Farmers co-ops organized to finance crop operations	36	509	377	122	n.a.	*44	*29	109
501(c)(17)	Supplemental unemployment benefit trusts	496	694	183	1,012	n.a.	581	155	1,450
501(c)(18)	Employee funded pension trusts	*42	*266	*2	*30	n.a.	*16	([3])(*)	*19
501(c)(19)	War veterans organizations	1,921	398	72	211	n.a.	16	55	193
	Other organizations, including (20)-(25)	9,605	1,472	569	580	n.a.	147	150	514

[1] The number of organizations reported for 1995 represents those organizations that filed a 1995 return with the Internal Revenue Service through the end of the 1997 calendar year.

[2] Estimates from 1975 are imputed from 1975 study; for this reason, detail does not add precisely to total.

[3] Less than $500,000.

* Estimate should be used with caution because of the small number of sample returns on which it is based.

NOTE: Data for 1975 are from the 1975 SOI study. Data for 1995, subsection 501(c)(3) through (9) data are from the 1995 SOI study; all other data are from the IRS's administrative master file. Adjustments for inflation are based on the chain-type price index for the Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Table 7.1