

# Nine Things You Might Not Know about U.S. Nonprofits

by GuideStar

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## 1. There are millions of nonprofits.

As of July 2015, more than 1.5 million nonprofits were registered with the IRS as tax exempt.<sup>1</sup> We know there are thousands of others, such as houses of worship and public schools, that don't show up in the IRS master list because they aren't required to apply to the IRS for exemption.

More than 6,000 nonprofits not registered with the IRS can be found in the GuideStar database. They represent the tip of the iceberg: the National Center for Charitable Statistics (NCCS) at the Urban Institute estimates that 2.3 million nonprofits were active in the United States in 2012.<sup>2</sup>

### ABSTRACT

Many people find the U.S. nonprofit sector confusing. Here is some basic information we hope will make things clearer. A glossary at the end of this document explains specialized terms used in it.

## 2. Nonprofits play an important role in the U.S. economy.

- Between 2000 and 2010, the nonprofit sector grew faster than either the government or business sectors in terms of number of people employed and wages paid.<sup>3</sup>
- Over the past few years, nonprofits have accounted for 5 percent of the gross domestic product (GDP). In the second quarter of 2015 alone, nonprofits added \$956.4 billion to the GDP.<sup>4</sup>
- In 2013, volunteers contributed \$163.0 billion worth of labor to nonprofits.<sup>5</sup>
- In 2014, charitable giving in the United States totaled \$358 billion.<sup>6</sup>

### 3. Not all nonprofits are tax exempt.

*What's the difference?* you ask.

**Nonprofit** is basically a business model. It indicates that an organization puts any income it earns back into its budget. Nonprofits are allowed to pay their employees, but they cannot distribute dividends to board members, officers, or shareholders. An organization receives nonprofit status from the state.

**Tax exempt** is a federal designation. Most nonprofits must apply to the IRS for exemption. An organization that is tax exempt is not required to pay federal income taxes.

*Why does it matter?* you inquire.

Generally, it's easier to find information on tax-exempt organizations. Exempt nonprofits are required to file certain documents with the IRS and to make them available to the public.<sup>7</sup> These documents provide information on the organizations' missions, programs, leadership, and finances. If a nonprofit is not tax exempt, however, its IRS filings are usually confidential.

*Public charities are the organizations people usually think of when they hear the word nonprofit. They range from small, local groups—a cat rescue society, church food pantry, after-school program—to large, complex, national and international organizations—the American Red Cross, Big Brothers Big Sisters, Doctors without Borders, National Cancer Society, and Save the Children, to name a few.*

A nonprofit's exempt status also matters if you want to deduct a contribution to it from your federal income taxes (or your company's federal taxes). Only tax-exempt nonprofits can receive tax-deductible contributions.

**But ...**

### 4. Not all tax-exempt organizations can accept tax-deductible contributions.

There are more than 30 types of exempt organizations, and only certain ones are eligible to accept tax-deductible contributions. The most common are 501(c)(3) public charities [501(c)(3) refers to the section of the Internal Revenue Code under which these nonprofits are tax exempt].

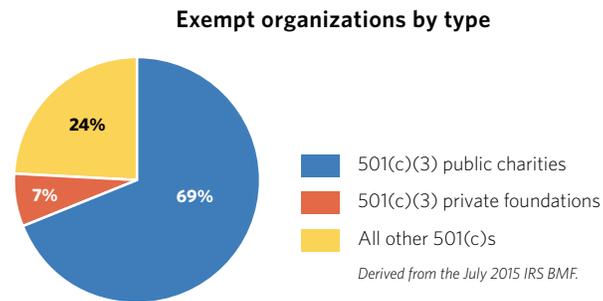
Public charities are the organizations people usually think of when they hear the word *nonprofit*. They range from small, local groups—a cat rescue society, church food pantry, after-school program—to large, complex, national and international organizations—the American Red Cross, Big Brothers Big Sisters, Doctors without Borders, National Cancer Society, and Save the Children, to name a few.

Section 501(c)(3) private foundations—such as the Bill & Melinda Gates Foundation, Ford Foundation, and W. K. Kellogg Foundation—also can accept tax-deductible contributions. The deductibility limits on gifts to these organizations differ from those for public charities, however. You can learn more about the differences between public charities and private foundations on GuideStar.<sup>8</sup>

Several other types of exempt organizations can accept tax-deductible contributions under certain circumstances. You can find the IRS list of the types of exempt organizations and whether they are allowed to accept contributions on GuideStar.<sup>9</sup>

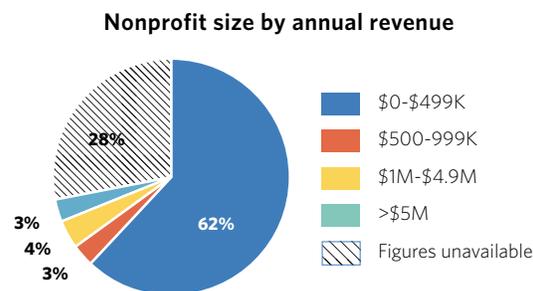
## 5. Public charities are the most numerous type of exempt organization.

Slightly more than 1 million public charities were registered with the IRS as of July 2015. They made up more than two-thirds of exempt organizations.

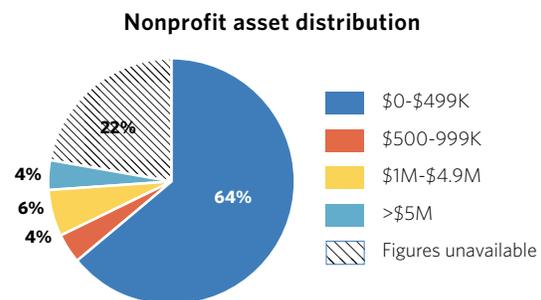


## 6. Most nonprofits are small.

Only 10 percent of organizations registered with the IRS as of July 2015 had revenues of \$500,000 or more. And only 14 percent of all nonprofits registered with the IRS as of July 2015 had assets of \$500,000 or more.



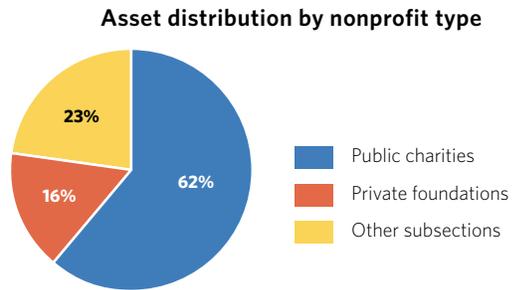
*Derived from the July 2015 IRS BMF. Revenue figures unavailable for 28% of nonprofits. These organizations probably fall into the \$0-\$499K group.*



*Derived from the July 2015 BMF. Asset figures unavailable for 22% of nonprofits. These organizations probably fall into the \$0-\$499K category.*

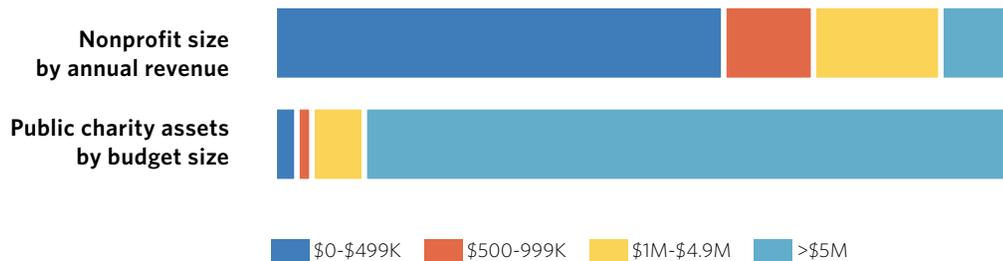
## 7. Public charities held the majority of the assets in the sector in July 2015.

This makes sense, since public charities make up the largest percentage of all exempt organizations.



## 8. Large charities held most public charity assets in July 2015.

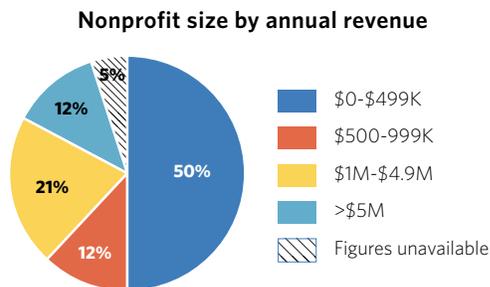
Just 10 percent of public charities—the largest ones—held 87 percent of all public charity assets.



Derived from digitized IRS Form 990 and 990-EZ data in the GuideStar database.  
Note: Budget figures unavailable for 1% of public charities.

## 9. Although private foundations made up only 7 percent of exempt organizations in July 2015, they held 16 percent of assets in the sector.

Still, half of private foundations had assets of less than \$500,000.



Derived from digitized IRS Form 990-PF data in the GuideStar database.  
Note: Asset figures unavailable for 5% of private foundations.

## The Secret Language of Nonprofits

It really isn't secret, but the vocabulary associated with the nonprofit sector can be bewildering. Here are definitions for terms used in this document.

**BMF**—short for IRS Business Master File, which is itself a nickname for the IRS Exempt Organizations Master File.

**Exempt or tax-exempt organization**—a nonprofit that is not required to pay federal income tax because it provides a public benefit. *Tax exempt* or *exempt* is a federal designation under the U.S. Internal Revenue Code. Most exempt organizations must apply to the IRS to receive exempt status.

**501(c)**—the section of the U.S. Internal Revenue Code under which most exempt organizations receive tax-exempt status.

**IRS Forms 990 and 990-EZ**—the annual reporting form that larger tax-exempt organizations must file with the IRS.<sup>10</sup>

**IRS Form 990-PF**—the annual reporting form that all private foundations, regardless of size, must file with the IRS.<sup>11</sup>

**Nonprofit**—an entity that conducts business without shareholders and without a profit motive. *Nonprofit* is a state designation.

**Private foundation**—a charitable organization that does not qualify as a public charity. In practice, private foundations usually are nonprofits that were established with funds from a single source or specific sources, such as family or corporate money.

**Public charity**—a charitable organization that (a) has broad public support, (b) actively functions to support another public charity, or (c) is devoted exclusively to testing for public safety.

**Tax-deductible contribution**—a charitable donation that can be deducted from the donor's federal income tax if the donor itemizes deductions.

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## ENDNOTES

<sup>1</sup> IRS Master File of Exempt Organizations (also known as the IRS Business Master File, or BMF), July 2015.

<sup>2</sup> "The Nonprofit Almanac and Almanac Briefs," National Center for Charitable Statistics at the Urban Institute, accessed July 31, 2015, <http://www.urban.org/features/nonprofit-almanac-and-almanac-briefs>.

<sup>3</sup> Ibid.

<sup>4</sup> Brice S. McKeever and Sarah L. Pettijohn, "The Nonprofits Sector in Brief 2014: Public Charities, Giving, and Volunteering," National Center for Charitable Statistics at the Urban Institute, Oct. 2014, p. 1, 2015, <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413277-The-Nonprofit-Sector-in-Brief--.PDF>; "Table 1.3.5. Gross Value Added by Sector," U.S. Bureau of Economic Analysis, Aug. 27, 2015, <http://www.bea.gov/iTable/iTable.cfm?reqid=9&step=1&isuri=1&903=24#reqid=9&step=3&isuri=1&903=24>.

<sup>5</sup> McKeever and Pettijohn, "The Nonprofits Sector in Brief 2014," p. 1.

<sup>6</sup> "Giving USA: Americans Donated an Estimated \$358.38 Billion to Charity in 2014; Highest Total in Report's 60-year History," Giving USA, June 16, 2015, <http://givingusa.org/giving-usa-2015-press-release-giving-usa-americans-donated-an-estimated-358-38-billion-to-charity-in-2014-highest-total-in-reports-60-year-history/>.

<sup>7</sup> An exempt nonprofit organization must make its application for exemption, IRS letter of determination (the letter in which the IRS informs the organization its application for exemption has been approved), and its three most recent annual information returns (usually IRS Form 990 or one of its variations) available to the public.

<sup>8</sup> "Just What Are Public Charities and Private Foundations, Anyway?" GuideStar, Aug. 2001, <http://www.guidestar.org/rxa/news/articles/2001-older/just-what-are-public-charities-and-private-foundations-anyway.aspx>.

<sup>9</sup> "Internal Revenue Service Subsection Codes for Tax-Exempt Organizations," GuideStar, accessed July 31, 2015, <http://www.guidestar.org/rxg/help/irs-subsection-codes.aspx>.

<sup>10</sup> "Which forms do exempt organizations file?" U.S. Internal Revenue Service, July 8, 2015, [http://www.irs.gov/Charities-%26-Non-Profits/Form-990-Series-Which-Forms-Do-Exempt-Organizations-File%3F-\(Filing-Phase-In\)](http://www.irs.gov/Charities-%26-Non-Profits/Form-990-Series-Which-Forms-Do-Exempt-Organizations-File%3F-(Filing-Phase-In)).

<sup>11</sup> Ibid.