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NONPROFITS

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Nonprofit Impact Matters:

How America's Charitable Nonprofits Strengthen Communities and Improve Lives



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Contents

- 3** Reading the Fine Print
- 5** Nonprofit Missions Matter
- 16** Nonprofits at a Glance
- 23** Nonprofits Face Challenges
- 31** A Call to Action: What You Can Do

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Why This Report?

We wrote this report for the stakeholders of America's 1.3 million charitable nonprofits that enrich the lives of everyone in our country, upholding our nation's bold ideals and big-hearted spirit through practical and effective action. Every day.

The report is designed for the 12.3 million nonprofit employees, more than 64 million nonprofit board members and volunteers, and tens of millions of donors who generously support the work of nonprofits. We want you to have free access to a trusted resource that shares information about the extraordinary American treasure known as charitable nonprofits.

Of course, we welcome others who want to learn more about nonprofits, including journalists, policymakers, government partners of nonprofits, for-profit businesses, educators, students, and the general public.

In addition to the data and information in this version of the report, you'll find even more resources at www.NonprofitImpactMatters.org. We'll add additional relevant statistics, materials, and resources that we create or curate throughout the year.

Note - this report is best viewed in Full Screen Mode in Adobe Acrobat Reader.

Charitable Nonprofits:

The Spirit of America



Charitable nonprofits embody the best of America. They provide a way for people to work together for the common good, transforming shared beliefs and hopes into action. They give shape to our boldest dreams, highest ideals, and noblest causes.

America's 1.3 million charitable nonprofits feed, heal, shelter, educate, inspire, enlighten, and nurture people of every age, gender, race, and socioeconomic status, from coast to coast, border to border, and beyond. They foster civic engagement and leadership, drive economic growth, and strengthen the fabric of our communities. Every single day.

But, as you know, operating a nonprofit is not easy. Nonprofits face serious, growing challenges that can limit their ability to serve the people and communities that rely on them. Some of these challenges relate to internal matters such as governance, personnel, and financial accountability, while others relate to external matters like fundraising and operational issues. Many of these challenges are caused by external forces larger than any one organization; they are systemic and sector-wide.

Nonprofits can overcome these challenges, but only if we all embrace the proven wisdom that more can be accomplished by working together than by working in separate silos.

Nonprofits play a fundamental role in creating more equitable and thriving communities. And nonprofits can do even more by coming together to protect both their legacy and their indispensable role in America's future.

Fall 2019

Reading the Fine Print



► THE WORD “NONPROFITS”

The term “nonprofit” means different things to many different people. It’s a commonly used word without a common understanding between writer and reader.

People often use the words “nonprofit” and “tax exempt” interchangeably. Congress has created almost three dozen **types of tax-exempt organizations** in different sections of the tax code. These include Section 501(c)(4) (social welfare organizations, homeowners associations, and volunteer fire companies), Section 501(c)(5) (includes labor unions), Section 501(c)(6) (includes chambers of commerce), and Section 501(k) (child care organizations). Each section identifies certain conditions that must be met to be exempt from paying federal income taxes. The one common condition is not paying out profits (“no part of the organization’s net earnings can inure to the benefit of any private shareholder or individual”); hence the term, “nonprofit.”

Section 501(c)(3) of the tax code refers to “public charities” (also known as charitable nonprofits) and “private foundations.” The tax code considers “churches and religious organizations” (which the IRS defines to include mosques, synagogues, temples, and other houses of worship) to be “public charities.”

This report uses the terms “charitable nonprofits” or simply “nonprofits” as shorthand for “501(c)(3) tax exempt organizations other than private foundations,” unless expressly saying otherwise.

► NONPROFIT NUMBERS

Similarly, nonprofit numbers can mean different things to different people in the absence of a common understanding of what the numbers represent.

First, there's the "name game"—do the "nonprofit numbers" relate to:

...all of the more than 30 types of tax-exempt organizations in the tax code?

...or all 501(c)(3)s, which would include all registered charitable, religious, and philanthropic (foundation) organizations?

...or just "charities" but not "foundations"?

Next, if the number is based on 501(c)(3) organizations registered with the IRS, then it doesn't include all houses of worship, because they're not required to register with the IRS, although many do. Nor would it include all charitable organizations, because groups with gross receipts under \$5,000 per year do not have to register. All these factors make it difficult to come to concise conclusions when analyzing nonprofit numbers.

It's also important to check the source and date of the data, because different government agencies (e.g., the IRS and Labor Department) collect and report information using different forms and definitions, from different entities, covering different time periods.

The numerical data in this report are from IRS Form 990 data for Fiscal Year 2016, released by the IRS in June 2018, unless otherwise indicated.

The data in this report may differ from those used by others, including state associations of nonprofits, for the simple reason that data may be drawn from different sources or covering slightly different time periods.



Nonprofit Missions Matter



Nonprofits engage in an astonishing array of activities. Those of us in the nonprofit community are certainly familiar with lots of nonprofit missions, but it's exciting to slow down, look around, and see the amazing variety of things nonprofits do.

► NONPROFITS IMPROVE LIVES

Every person in the United States benefits from the work of nonprofits in one way or another, whether they realize it or not.

It's easy to see a nonprofit's mission in action when our families or neighbors are direct beneficiaries—such as when nonprofits provide food for the hungry, life-saving trauma care to someone in a car wreck, or rescue relief to hurricane survivors.

It's harder to recognize the full impact of the indirect benefits nonprofits provide us. For example, the mission of the "friends of the local public library" might be to promote reading, but taxpayers also benefit when the nonprofit raises funds to buy books and equipment.

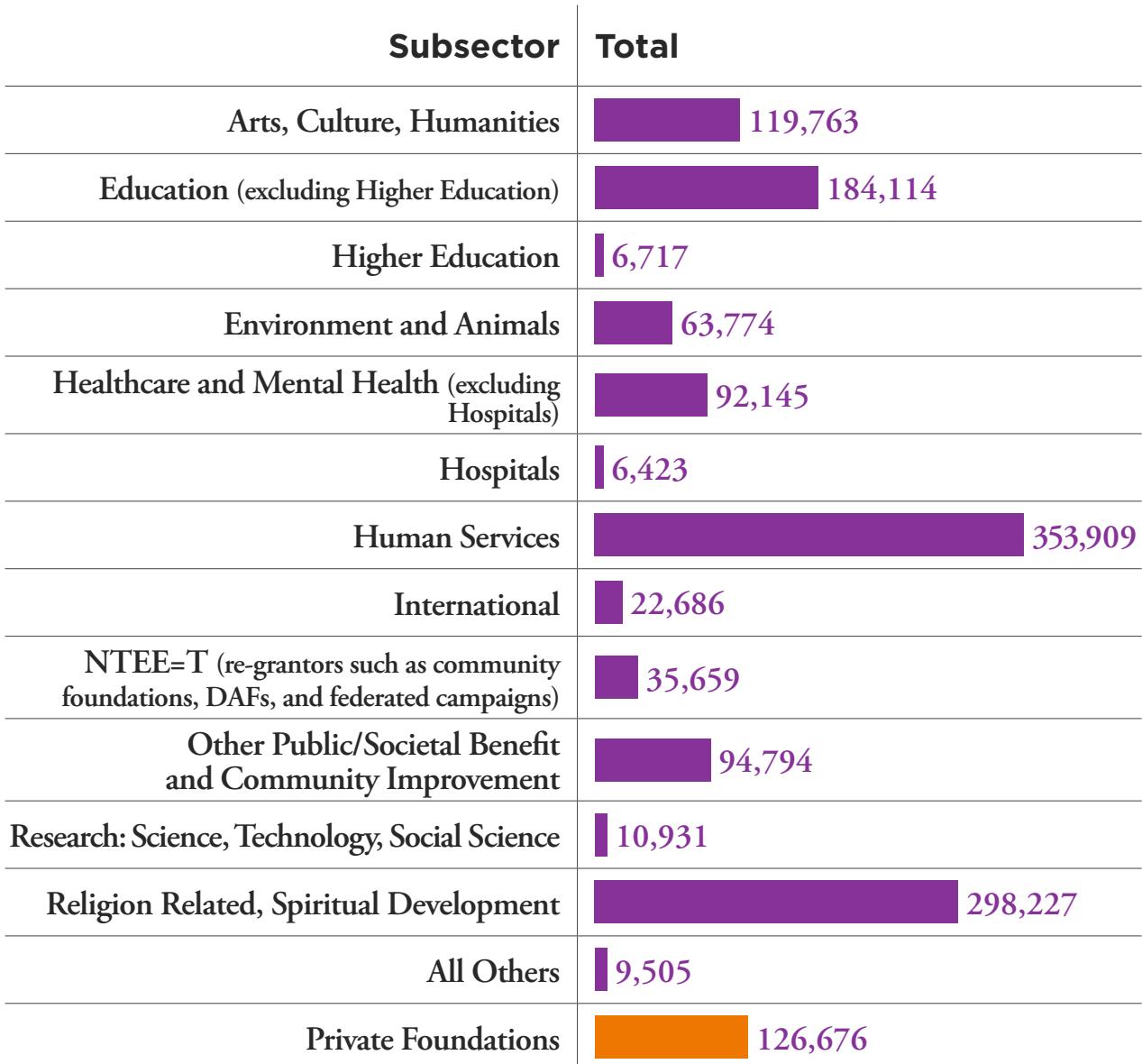
There are hundreds of different ways that nonprofits can accomplish their primary purpose. The **National Taxonomy of Exempt Entities** (NTEE) system identifies those hundreds of ways, applying the **IRS Activity Codes** to every entity granted tax-exempt status.

The following chart compresses those classifications into 13 broad categories of nonprofit “subsectors,” including an “other” category. After totaling those nonprofits, the chart adds the number of private foundations to show a more complete count of 501(c)(3) organizations. Note, however, that while the chart shows 298,227 organizations in the “Religion Related, Spiritual Development” subsector, houses of worship are not required to register with the IRS, so the actual number of those organizations is larger than reported here.

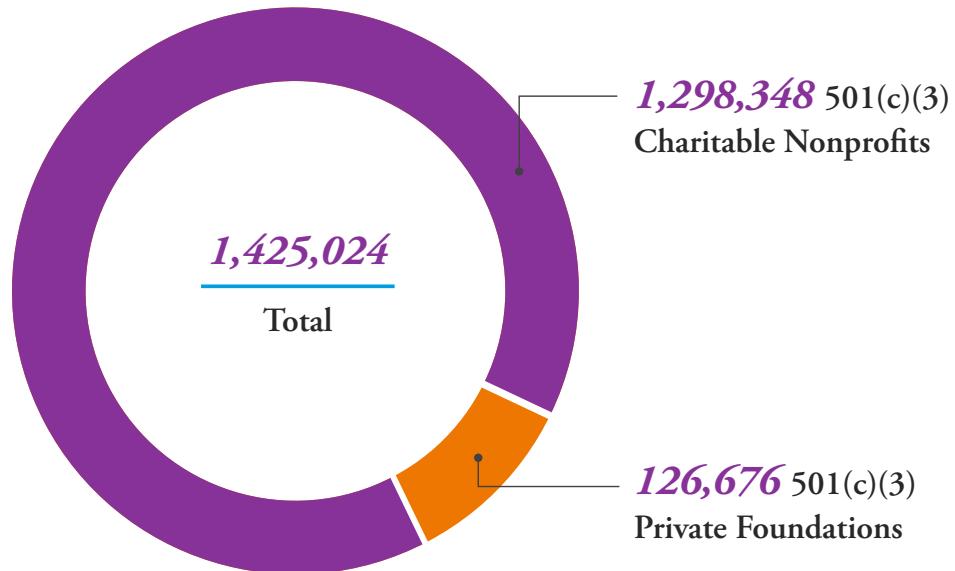
SOURCE: IRS Business Master Files, Revenue Transaction Files, and electronic (e-File) Form 990 returns processed for fiscal years ending circa 2016 (released June 2018), by DataLake LLC Nonprofit Research (datalake.net). For a full description of the data, see www.NonprofitImpactMatters.org.

REGISTERED 501(c)(3) NONPROFITS AND PRIVATE FOUNDATIONS

by Subsector



TOTAL REGISTERED 501(c)(3) ORGANIZATIONS



Although every tax-exempt entity is classified in an NTEE-designated category, a nonprofit's mission work often goes beyond one narrow category. The church, mosque, or synagogue down the street may multi-task by also operating as a soup kitchen and a place for AA meetings. Museums provide art therapy classes to disabled children and adults. Where better to bring the community together after a disaster or crisis than the welcoming spaces nonprofits provide? Regardless of how the NTEE codes categorize nonprofits, they are driven and bound by their missions to serve the public good.

While fires raged in Southern California in 2017, the Museum of Ventura County sought to provide some sense of normalcy for families staying at the nearby Red Cross shelter through activities like art classes. At its Agriculture Museum, the nonprofit distributed donated food and offered activities for children while parents used the space as a meeting place to check in with friends and neighbors.



CONSIDER—there's a good chance you or a family member:



Entered the world born in a nonprofit hospital—nearly half of America's hospitals are nonprofit.



Avoided polio because March of Dimes raised research funds to discover a safe and effective vaccine, and escaped other diseases because of scientific research by nonprofits.



Attended services at a house of worship maintained by one of the nearly 350,000 nonprofit religious congregations.



Learned how to swim through lessons at the local JCC, YMCA, or scout camp.



Developed life skills like conflict resolution and teamwork through Girl Scouts, Little League, 4-H, or other youth development organizations.



Attended a nonprofit preschool, grade school, high school, college, or graduate school, perhaps with support of a nonprofit scholarship fund.



Exercised your rights to vote, to education, to travel, to equal treatment under the law and other rights secured and protected by nonprofits.



Visited historic treasures and places of natural beauty preserved by nonprofits.



Enjoyed family vacations at nonprofits such as the San Diego Zoo, the Museum of Science and Industry in Chicago, or the Metropolitan Museum of Art of New York City.



Inhaled cleaner air in tobacco-free restaurants thanks to the work of public health nonprofits.



Enjoyed the natural wonder and splendor of America's rivers, forests, and open spaces due to the work of nonprofits committed to conservation and our environment.



Laughed, relaxed, rejoiced, and were inspired at nonprofit arts performances.

► **Of course, that's still just a short list of the many ways that nonprofits improve lives.**



► NONPROFITS ARE BUILDING BLOCKS OF DEMOCRACY.

Throughout our nation's history, people have come together through nonprofits to pursue common goals. As a natural part of that process, people engage with each other, learn more about their community's strengths and challenges, and—even without a big sign declaring, "Democracy in Action"—develop their skills in community problem-solving.

The vast majority of nonprofits are smaller in size (88 percent of nonprofits have budgets of under \$500,000) and operate at the grassroots level. As such, they offer more personal, easier access points for connecting people in all kinds of areas, from secluded rural settings to dense urban neighborhoods.

Image courtesy of Macomb County Habitat for Humanity, Clinton Township, Michigan



"[N]onprofits are well positioned to show through their work how democracy is more than a lofty construct; it's the stream from which every attempt to solve public problems and make the world a better place flows."

It's nonprofits, after all, that spurred some of the most significant and sweeping changes in modern history, from the Voting Rights Act to welfare to campaign finance reform."

— Cynthia M. Gibson,
in *Nonprofits: The DNA of Democracy*,
Nonprofit Quarterly



► NONPROFITS ARE WHERE AMERICANS COME TOGETHER TO SOLVE PROBLEMS.

Nonprofits are the safe place where people who share mutual interests and concerns find common ground and solve problems collaboratively. Through nonprofits, people deepen their connections with others and build community, creating “banks” of social capital.

“Nonprofits are problem solvers, innovators, job creators, trusted advisors, major employers, and revenue generators. More than that, they are the connectors, links, and leaders that make our towns and cities true communities.”

— Alliance of Arizona Nonprofits



► NONPROFITS ARE LABORATORIES OF LEADERSHIP.

People often learn, practice, and refine their leadership skills at nonprofits—not by formal instruction about the topic of “leadership,” but as board members and volunteers who organize events, recruit and develop skills in other volunteers, handle accountability, engage in compromise, and more.

“I didn’t learn my leadership skills in college or develop them while working for large corporations. I began to learn and develop my leadership skills while serving on the board of a local nonprofit.”

— said one CEO



► NONPROFITS ARE PROMOTERS OF CIVIC ENGAGEMENT.

Many nonprofits work formally to engage communities in democracy—in nonpartisan ways. In addition to well-known nonprofits like the League of Women Voters, whose primary mission is to encourage active and informed participation in government, countless organizations use their wide networks and deep community connections to help ensure individuals can express their views and have a say in their future.

- Voting is a cornerstone duty and privilege of every citizen. Statewide organizations like CalNonprofits, through its Vote with Your Mission campaign, and national nonprofits like Nonprofit VOTE promote nonpartisan voter registration, educate candidates about issues, and host forums to give candidates and nonprofits the opportunity to share information and build relationships for the common good—all while remaining strictly nonpartisan.
- Nonprofits can promote civic engagement such as voting, but they must always avoid endorsing or opposing any candidates for public office or using charitable assets for partisan campaign activity. Remaining nonpartisan is both the law and common sense. People trust nonprofits as problem-solvers because they know nonprofits are working for the common good rather than a political party.

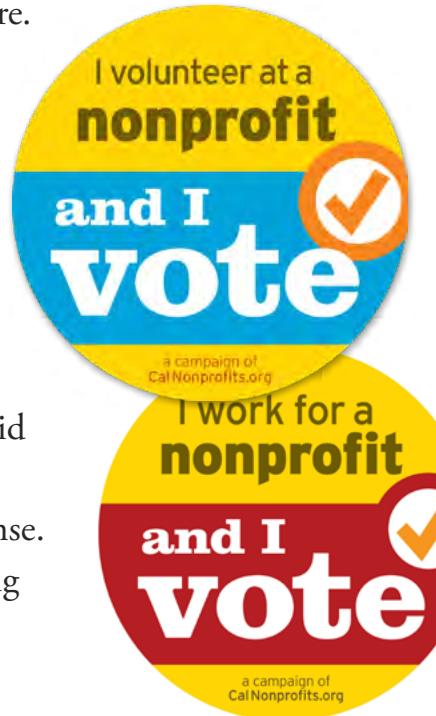




Image of box office courtesy of Wolf Trap Foundation for the Performing Arts, a 501(c)(3) nonprofit in Vienna, Virginia



► NONPROFITS ARE ECONOMIC ENGINES.

While it's easy to see how nonprofits directly improve the lives of individuals, their positive contributions to the U.S. economy are often overlooked. A closer review reveals nonprofit organizations have a very significant, far-reaching impact on the American economy.

In fact, nonprofits enhance and bolster local, state, and national economies in multiple ways, including the following:



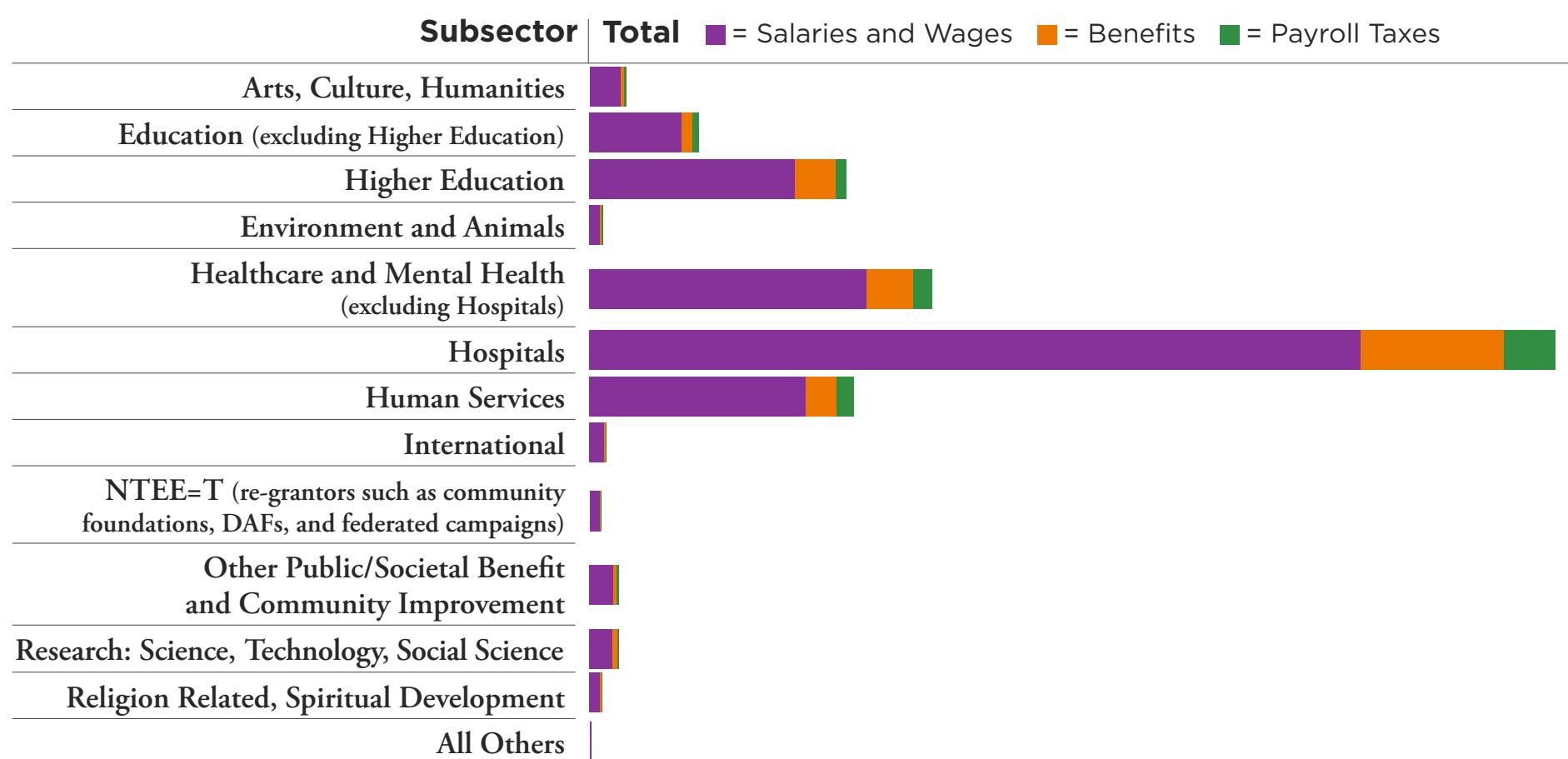
Nonprofits employ 12.3 million people¹, with payrolls exceeding those of most other U.S. industries, including construction, transportation, and finance.

A substantial portion of the nearly \$2 trillion nonprofits spend annually is the more than \$826 billion they spend on salaries, benefits, and payroll taxes every year. Also, nonprofit staff members pay taxes on their salaries, as well as sales taxes on their purchases and property taxes on what they own.

¹ The 2019 Nonprofit Employment Report, Johns Hopkins Center for Civil Society Studies, based on 2016 data from U.S. Bureau of Labor Statistics.

U.S. nonprofits spend nearly \$2 trillion annually and employ more than **10 percent of the total private workforce** in the U.S.

Annual Compensation Reported on Form 990 by 501(c)(3) Nonprofits: Total Wages, Benefits, and Payroll Taxes Equal More Than \$826 Billion



SOURCE: IRS Business Master Files, Revenue Transaction Files, and electronic (e-File) Form 990 returns processed for fiscal years ending circa 2016 (released June 2018), by DataLake Nonprofit Research (datalake.net). For a full description of the data, see www.NonprofitImpactMatters.org.



Nonprofits also create work opportunities for millions of individuals above and beyond the millions they employ directly.

Nonprofits that provide care for children or elderly parents allow family members who would otherwise shoulder the burden of providing care to instead work outside the home. Nonprofits also provide job training and placement services for people who would otherwise be unemployed or underemployed.



Nonprofits consume goods and services that create more jobs.

Nonprofits spend nearly \$1 trillion annually for goods and services, ranging from large expenses, like medical equipment for nonprofit hospitals, to everyday purchases such as office supplies, food, utilities, and rent.



Nonprofits spur economic activity.

Nonprofits have an even broader impact by creating economic activity and jobs that ripple through the community. As just one example, consider arts programming. By attending a play at a local nonprofit community theater, you didn't just support the cast, crew, and administrative staff; you likely also provided a boost to local businesses. Did you pay for parking? Did you buy just the right earrings, shoes, or tie for the occasion? Did you go to dinner before the show or meet friends afterwards? If so, you extended the economic impact of that theater, helping to create more jobs in the local economy, while also generating even more tax revenue for the local government.



Nonprofits attract other employers.

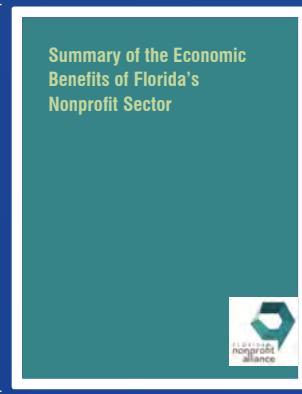
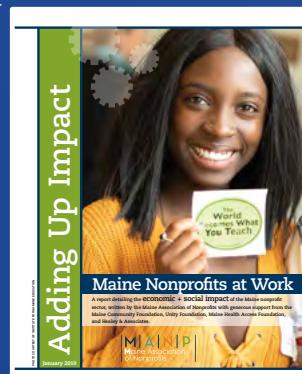
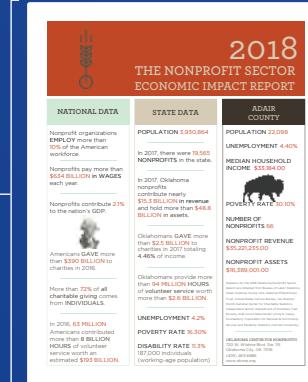
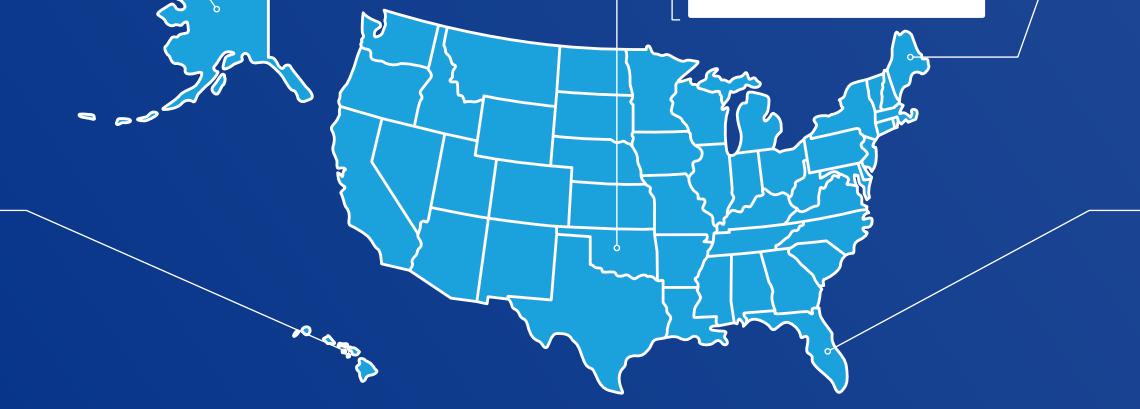
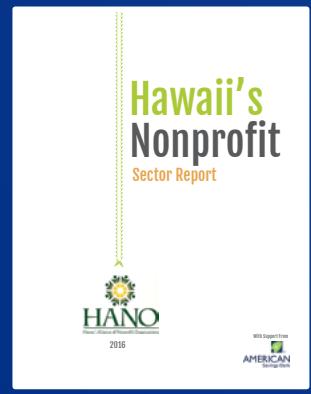
Have you ever noticed how brochures for local chambers of commerce often identify local nonprofits as a top reason for businesses to locate there? Many boast about beloved cultural amenities, such as nonprofit museums and performing arts venues. Other common features are nonprofit colleges to showcase the value of an educated workforce and nonprofit healthcare facilities to reinforce a commitment to well-being. While the brochures seldom label these local icons as being "nonprofits," business leaders intuitively recognize the immense value that local nonprofits contribute to the community's quality of life.

Why This Matters

State and Local Economies Rely on Nonprofits

A nonprofit's impact is usually measured by the effectiveness of its mission-based work. But above and beyond the direct ways that nonprofits improve lives, these organizations fuel regional economies by boosting the labor market, paying for goods and services, and

spurring economic activity in other real but less well-known ways. Want to learn more? Check out the **many state and local reports** that showcase and contextualize nonprofits' economic impact in their communities.



Nonprofits at a Glance



Some of today's nonprofits pre-date the United States, such as Harvard (1636) and the Benjamin Franklin-founded Library Company of Philadelphia (1721). Indeed, "communities existed before governments were there to care for public needs," so "**voluntary collaborative activities**" were set up to provide basic social services."

In the year 2000, 819,008 501(c)(3) organizations were **registered with the IRS**. By 2016, that number had increased by almost 75 percent. Thus, while the concept of nonprofit organizations has been around for a very long time, more than half a million nonprofits have been created since 2000 in the U.S. alone.

Because many nonprofits are new and currently no central place exists where people can turn for information about nonprofits, there are some common misconceptions. You can help support the nonprofits you care about by sharing these facts.

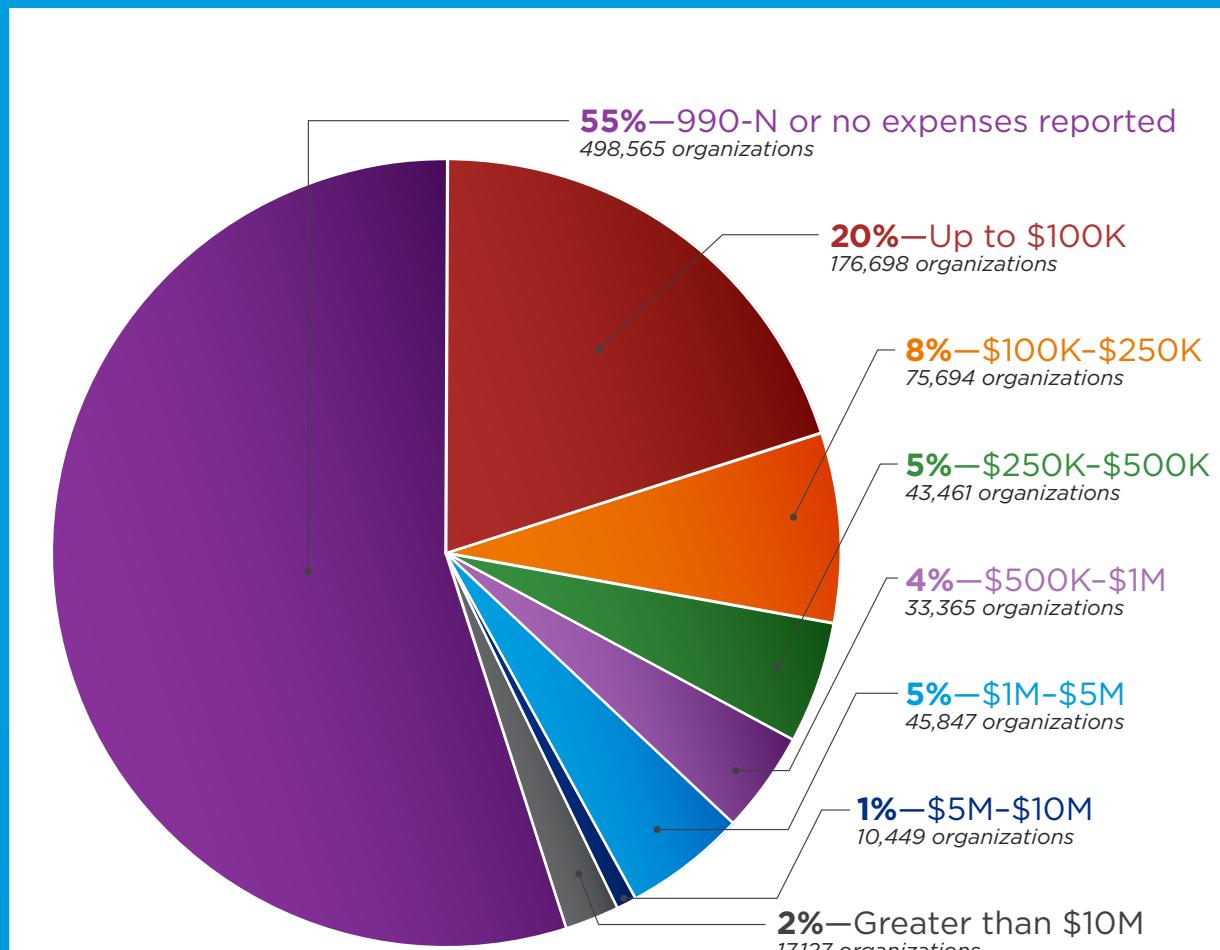
Image courtesy of the Prevention of Blindness Society of Metropolitan Washington, founded in 1936

FACT:

Most nonprofits are relatively small: 97 percent of nonprofits have budgets of less than \$5 million annually, 92 percent operate with less than \$1 million a year, and 88 percent spend less than \$500,000 annually for their work.

Thus, the “typical” nonprofit is community-based, serving local needs. It should be no surprise that relatively few nonprofits have an endowment. Indeed, most nonprofits have limited reserves—about 50 percent have less than one month of cash reserves, **according to one analysis** of nonprofit financial records.

501(c)(3) Charitable Nonprofits by Size *(excluding private foundations)*



Source: IRS Business Master Files, Revenue Transaction Files, and Form 990/990-EZ/990-N returns processed for fiscal years ending circa 2016 (released June 2018), DataLake Nonprofit Research (datalake.net). This chart covers 901,206 nonprofits that filed informational tax returns with the IRS. Financial information is not available, however, for nonprofits with annual gross receipts normally \$5,000 or less or for many religious groups, which are not required to file such returns. For a full description of the data, see www.NonprofitImpactMatters.org.

FACT:

“Nonprofit” is a tax status, not a way of operating. The word doesn’t mean that an organization must lose money or take a vow of poverty. Nonprofits can make a profit (it’s called a surplus when there’s money left after expenses at the end of the year). The issue is: Who can benefit from any extra money at year’s end?

When a for-profit enterprise brings in more money than it spends, the profit goes to the owners. But nonprofits have no

owners. **Nonprofits are formed to benefit the public, not private interests.** When a nonprofit brings in more money than it spends, the nonprofit must use any surplus revenue for its charitable purpose—its mission.

This limitation should not be confused with compensation for employees. **Nonprofits can—and should—pay their employees reasonable salaries and benefits.**

FACT:

Nonprofits can get their funding from three general sources: **Nonprofits can charge for the work they do**, they can receive donations, and they can find miscellaneous other ways to earn revenue. **There is no standard revenue mix, no one-size-fits-all formula.** The source of a nonprofit’s funding varies due to a lot of factors. The two biggest factors are the nonprofit’s size and mission.

Generally speaking, small to midsize nonprofits tend to rely more heavily on donations from individuals and grants from foundations, as do nonprofits focused on the arts, culture and humanities as well as those focused on the environment or animals.

Hospitals, other healthcare entities, and education institutions—all of which tend to be larger—receive more in private payments for services. And nonprofits providing human services and healthcare (including hospitals) tend to earn payments from governments.

The following graphic of revenue sources for charitable nonprofits displays the breakdown for all charitable nonprofits combined to illustrate revenues on a sector-wide basis. We stress that the percentages portray sector-wide averages as a whole, not the “norm” for any given nonprofit or subsector.²

² The percentages reflect data only from nonprofits that report on Form 990, so revenues of smaller organizations and many “churches and religious organizations” that don’t have to file that form are not included.

Revenue Sources for Charitable Nonprofits

49% EARNED
Private Fees for Services



31.8% EARNED
Government
Grants/Contracts



8.7% DONATED
Individuals



2.9% DONATED
Foundations



1.5% DONATED
Bequests



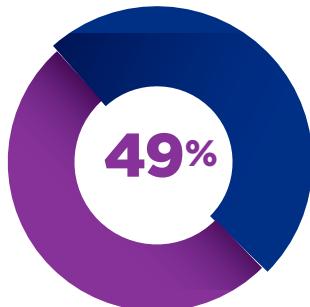
.9% DONATED
Corporations



5.2% Other

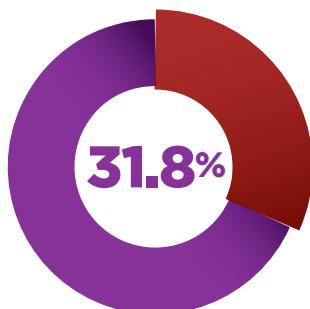
SOURCE: IRS Business Master Files, Revenue Transaction Files, and electronic (e-File) Form 990 returns processed for fiscal years ending circa 2016 (June 2018) by DataLake Nonprofit Research (datalake.net), Urban Institute's National Center for Charitable Statistics.

Each general source of the nonprofit community's revenue is further described below:



Earned—Private Fees for Services

A huge chunk of this revenue goes to nonprofit hospitals (think insurance payments for heart surgery or delivering a baby) and higher education (tuition, room and board). Other examples include admission tickets to a community theater or museum, rent for affordable housing, and sales of things like newsletter subscriptions and items sold at Goodwill stores.



Earned—Government Grants/Contracts³

Governments frequently hire nonprofits to provide services to the public. In the words of the federal **Government Accountability Office**, "*Federal, state and local governments rely on nonprofit organizations as key partners in implementing programs and providing services to the public, such as health care, human services and housing-related services.*" (Emphasis added.)

³ This figure is an estimate based in part on an analysis of the "old" Form 990, which had a line for "government contracts" until 2008. SOURCE: Urban Institute's National Center for Charitable Statistics.



Donated—Individuals (10.2% = 8.7% gifts from individuals + 1.5% via bequests)

Americans have immense generosity, opening their hearts and wallets to support the work of nonprofits, and many remember nonprofits in their wills as a way to leave a positive legacy.



Donated—Foundations (2.9%) and Corporations (.9%)

Although institutional giving by foundations amounts to less than three percent of total revenue and corporations account for less than one percent, those contributions are critically important to the nonprofits receiving that support. In addition, the foundation community plays a key role in driving strategic innovation and corporations can lend their expertise.



Other

This amount includes all other revenue such as investment income, rental income, royalties, and net proceeds from special events and raffles.

Why This Matters

Foundations Cannot Replace Government Cuts

As the dollar-bill graphic shows, foundations couldn't possibly replace cuts in government funding, even if they wanted to. Consider this comparison: In 2017, the White House **proposed cutting \$193 billion** from SNAP (the Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program) over 10 years. Yet cutting funding doesn't cut the human needs of hungry children, seniors, veterans, and others who depend on receiving payments through the program.

Those cuts to SNAP didn't happen, but if payments had stopped, those individuals would have turned to nonprofits for help to meet their ongoing needs. Nonprofits, in turn, would have turned to foundations for funds to provide food. But generating the amount of money needed to replace the proposed cuts to SNAP would have consumed the equivalent of cashing out all the assets and forever **closing the doors** of the nation's 15 largest foundations—and that's just one example.

Proposed Cuts to SNAP

Total Endowments Largest U.S. Foundations



Source: Publicly available audited financial statements for fiscal year 2017, where available; fiscal year 2017 990s where financial statements were unavailable; estimated size of endowment based on earlier years otherwise.

FACT:

All organizations—whether nonprofit, for-profit, or governmental—have overhead costs. Whether called “overhead,” “administrative costs,” or “indirect costs” (the technical definitions vary somewhat in different settings), these costs are simply the necessary costs of doing business, such as the cost of operating and maintaining facilities (e.g., rent, utilities, insurance) and the salaries and expenses of executive leadership, personnel administration, information technology, and accounting. **Overhead costs have no relation to an entity’s level of effectiveness or outcomes.**

Among businesses, a **study of the indirect cost rates of S&P 500 companies** revealed that consumer staple companies (e.g., food and household items) had a median overhead rate of 34 percent, and the rate for information technology companies reached 78 percent. Yet people tend to bring up overhead only when talking about nonprofits. They expect nonprofits to have overhead as close to zero as possible—which would mean operating without some of the basics, such as rent, utilities, management, accounting, or technology. That’s simply not logical.

When ordering coffee at Starbucks, there’s no option to say, “I’ll pay for only the cost of the water, a plain cup, the few coffee beans used, and a minute’s worth of the barista’s time to pour my coffee, but I won’t pay for the other stuff like rent for your building, insurance, equipment, electricity, furniture, accounting, janitorial staff, managers, or advertising (either on television or printed on my cup). That’s Starbucks’ responsibility, not mine, because that’s just overhead.” Or, consider, “**What if pizza shops were run like Human Services nonprofits?**”

For more serious information, we offer **publications, practice pointers, and other resources** to help nonprofits inform donors and community members about the true costs of delivering services.



Nonprofits Face Challenges



Nonprofits improve the lives of individuals, add vitality to American communities, contribute to local and national economies, and enhance the overall health of our democracy. But the ability of nonprofits to continue doing so faces challenges.



MANY NONPROFITS STRAIN TO MEET INCREASING PUBLIC NEEDS.



POLICY PROPOSALS AT ALL LEVELS OF GOVERNMENT THREATEN THE WORK OF ALL NONPROFITS.



WORRISOME TRENDS HAVE BEEN DEVELOPING REGARDING CHARITABLE GIVING.



THERE IS A CONTINUED LACK OF DIVERSITY, EQUITY, AND INCLUSION.



"Demand is still rising faster than nonprofits' ability to meet it."

— State of the Nonprofit Sector 2018, Nonprofit Finance Fund

► NONPROFITS STRAIN TO MEET INCREASED PUBLIC NEEDS.

Although the Great Recession of 2008 supposedly ended years ago and headlines the last few years have claimed the economy is strong, **human needs were greater in 2017 in three-quarters of U.S. states** than they were when the recession began. The public's increasing need for services has been documented by multiple recent studies.

The result is that many nonprofits have been straining to meet the public's increased needs. **The Nonprofit Finance Fund's latest survey** to assess the state of the nonprofit sector found that a majority of nonprofits continue to struggle trying to meet this ongoing increased need:

- More than half (57 percent) reported that their organizations couldn't meet demand; the figure rose to 65 percent among nonprofits that serve low-income populations.
- More than three-quarters (79 percent) reported that demand for services had increased from 2016 to 2017 (39 percent said it increased more than 10 percent).

Nonprofits can't prevent recessions or magically eliminate human needs. But they can be aware of the added strains on staff, board members, volunteers, and donors. And nonprofits can use that knowledge to inform lawmakers about the potential consequences of policy decisions.

Among those whom U.S. nonprofits are struggling to serve:



The 40% of Americans who are only one missed paycheck away from poverty.
(CBS News)



The 50.8 million U.S. households that can't afford to meet a basic monthly budget.
(United Way)



The 40 million Americans who live in poverty.
(United Nations)



► POLICY PROPOSALS AT ALL LEVELS OF GOVERNMENT THREATEN THE WORK OF ALL NONPROFITS.

All 501(c)(3) organizations need a reliable, steady, and supportive public policy environment in which to pursue their missions.

Yet those missions are vulnerable to actions by policymakers who, whether intentionally or inadvertently, can take away needed resources, impose unnecessary burdens, interfere with decision-making, erect harmful barriers, and otherwise change laws in ways that disrupt the work of charitable, religious, and philanthropic organizations.

It's important to recognize that significant threats can occur not just at the federal level, but also at the state and local levels. Certainly, a change in law at the federal level can have nationwide ramifications. But changes in a state's laws can be just as consequential for the charitable nonprofits, houses of worship, and foundations in that state. As this chart reveals, the odds of policy changes being made are much greater at the state than the federal level.

If your state proposed to limit or eliminate charitable giving incentives, eliminate tax exemptions for nonprofits, levy new taxes or fees on nonprofits, impose unwieldy regulatory burdens on nonprofits, substitute its opinions for your board's informed decision-making, or proposed other harmful changes, would the nonprofits you care about be prepared?

Most Policy Action Occurs in the States

Number of Laws Enacted

U.S. Congress	State Legislature
332 in 2015-2016	28,867 in 2015-2016
411 in 2017-2018	31,774 in 2017-2018

Source: Quorum Analytics search; February 2019.

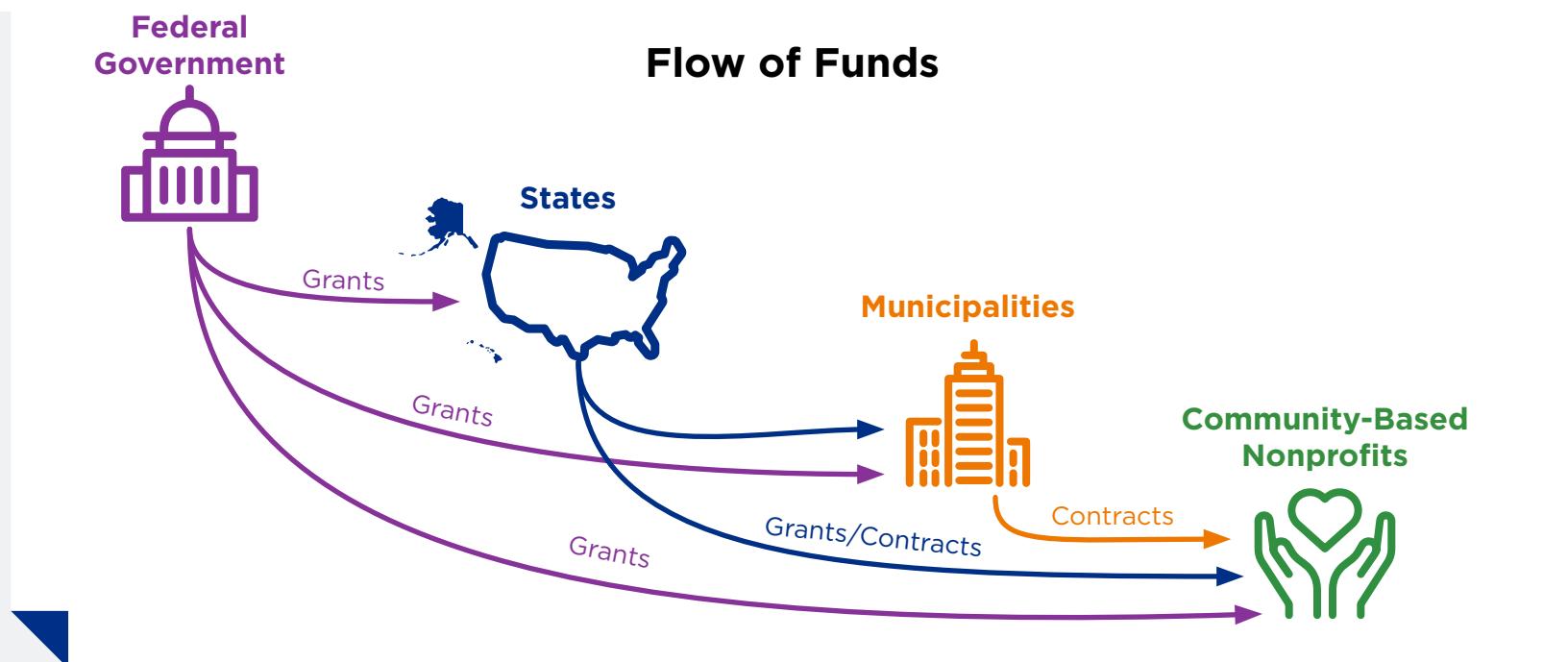
A few of the many current sector-wide challenges include:

- **Limiting nonprofit resources by tampering with charitable giving incentives.** For a century—from 1917 to 2017—the federal tax code incentivized charitable giving with a tax deduction. In late 2017, the Tax Cuts and Jobs Act did not directly touch the charitable giving incentive. However, it changed the standard deduction in such a way that Congress anticipated that 28.5 million fewer people will file tax returns with itemized deductions. Experts across the political spectrum predict that eventually **the 2017 federal tax law could suppress charitable giving by \$13–\$21 billion annually**. For the latest information, visit our [webpage on charitable giving incentives](#).
- **Taking charitable assets by taxing tax-exempt nonprofits.** Nonprofits have learned the hard way that they need to prepare for action every time a government considers changing its **tax policy**. Here are two examples of how policymakers, in their zeal to bring in funds to balance their own budgets, can conveniently forget the social compact with tax-exempt nonprofits:
 - The federal tax law changes in 2017 imposed a new 21 percent **income** tax on nonprofits and houses of worship for the **expenses** they pay to provide their employees with transportation benefits, such as parking and transit passes. (The latest updates can be found on [our UBIT/Nonprofit Transportation Benefits page](#).)
 - State constitutions and statutes exempt nonprofit property from taxes in all 50 states. Yet scores of local governments have tried to evade those state laws by imposing fees or demanding that nonprofits make “**voluntary**” **payments in lieu of taxes** (PILOTs).

- **Failing to reimburse nonprofits for contracted costs.**

Governments often hire nonprofits to provide services to the public. Too often, **governments fail to pay nonprofits for the true costs** of delivering those services. Thus, unlike for-profit contractors that are paid their true costs (including overhead) plus profits, nonprofits must divert time away from programs to raise funds essentially to subsidize governments' obligations. When governments routinely fail to reimburse nonprofits for the real costs of delivering services, they are **starving their partners** on whom the public and governments rely.

- **Cutting government budgets.** When the federal government cuts spending on a program, it has a cascading effect. States, on average, **receive almost a third of their revenues** from federal funds. Local governments receive funding from the federal government and their states. Each level of government often hires nonprofits to deliver programs and services to the public. That makes nonprofits—which work on the front lines to deliver so many public services to individuals and communities—vulnerable to unpredictable cuts in public spending.





Timothy “Tee” Boddie of the Progressive National Baptist Convention, Rabbi Jack Moline of the Interfaith Alliance, Amanda Tyler of BJC, and Dr. Sayyid M. Syeed of the Islamic Society of North America prepare to deliver letters to members of Congress, urging them to defend the Johnson Amendment (image courtesy of BJC).

- **Attempting to politicize nonprofits.** Imagine the resulting harm to public trust if our performing arts centers, houses of worship, foundations, youth programs, and service providers were pressured to endorse politicians or use charitable assets to subsidize partisan political activity. For more than 60 years, the law commonly known as the **Johnson Amendment** has prevented this from happening. That law provides that, in exchange for tax-exempt status and the ability to receive tax-deductible contributions, charitable nonprofits, houses of worship, and foundations may not endorse or oppose candidates for public office or divert charitable assets away from their missions to influence political campaigns. Yet politicians in

Congress keep proposing legislation that would politicize America’s charities and churches. Their bills would allow billions of dollars of undisclosed political campaign donations—disguised as charitable contributions—to be funneled through churches and charities. That’s among the many reasons why America’s charitable, religious, and philanthropic organizations tell politicians: Keep your partisan rancor away from our missions.

Nonprofit staff, board members, volunteers, donors, and beneficiaries must stand together on these and other issues to provide a common defense of the broad nonprofit community. If we sit quietly on the sidelines, we risk having our organizations and communities destabilized.



► WORRISOME TRENDS REGARDING CHARITABLE GIVING.

Government actions limiting incentives for charitable giving aren't the only troubling trend related to charitable giving. Nonprofit stakeholders need to be aware of two other trends that tie into "giving inequality."

One trend is that, **over the last 15 years, fewer households have been making donations to support the work of nonprofits**. Also, the amount that "small" and "medium" donors have contributed has been declining. Those downward trends have been masked, however, by headline-grabbing mega-gifts from billionaires that push the total dollar amounts in charitable giving to new heights. It's tempting to shrug and simply rejoice that overall giving is going up. But where are the new mega-gifts going, and where are the small and medium donations no longer going?

Many wealthy donors tend to focus their giving on larger institutions like universities—worthy causes

for sure—but meanwhile, many smaller community-based organizations meeting local needs, such as food banks, homeless shelters, and social-service nonprofits, have been struggling due to the falling donation rates of ordinary people.

These smaller nonprofits are also more sensitive to changes in the tax code than larger institutions, recent **research suggests**. That's why the new federal tax law is so problematic: By doubling the standard deduction, lawmakers essentially limited any financial incentive for middle- and working-class Americans to make charitable donations while keeping financial incentives in place for the wealthy, further fueling "giving inequality." Visit our **webpage on charitable giving incentives** for the latest information.

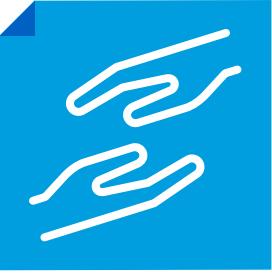
On the bright side, many efforts are under way on the part of foundations, researchers, and others **to encourage Americans to give more**.

Why This Matters

Community-based nonprofits need donors to "give local."

"While several billion-dollar mega-gifts from wealthy individuals generate headlines that suggest all is well, in fact large institutions continue to amass resources, while nonprofits serving communities in need are barely getting by."

— The New Normal: Capacity Building During a Time of Disruption



► THERE IS A CONTINUED LACK OF DIVERSITY, EQUITY, AND INCLUSION.

It should be so simple. After all, the principle of the Golden Rule—do unto others as you would have them do unto you—is crucial to every major religion in the world as well as secular ethical philosophy.

Yet real-world realities have not caught up to either the Golden Rule or the dream of the ideal America. In all three sectors of our economy—for-profit, government, and nonprofit—women are paid less than men and people of color are held back. Nonprofits can do better to model the way. Indeed, we must do better.

- Approximately 72 percent of charitable nonprofits in the U.S. are led by women, but female CEOs are paid less than their male counterparts. The gender pay gap **is a threat to nonprofit effectiveness and sustainability**.
- In the first national **survey of race and leadership in the nonprofit community**, conducted by the Building Movement Project, one-third of the respondents who are people of color reported that their race or ethnicity had negatively impacted their career at a nonprofit. Eighty percent of respondents across all races reported the lack of racial diversity at the top of nonprofits is a “big problem.”

Nonprofits can use the **discussion, resources, and tools gathered on this page** to help them address diversity, equity, and inclusion within their organizations and programs.



Many nonprofits, such as YWCA, work to fight racism and advance diversity, equity, and inclusion (image courtesy of YWCA USA).

A Call to Action: What You Can Do

Although the challenges can seem daunting, nonprofits can overcome them by sticking to the basics. In our view, these are:

Michael Weekes, President and CEO of the Providers' Council, addresses a rally of the Caring Force at the Massachusetts State Capitol (image courtesy of Providers' Council).



**PROTECT THE
PUBLIC TRUST**



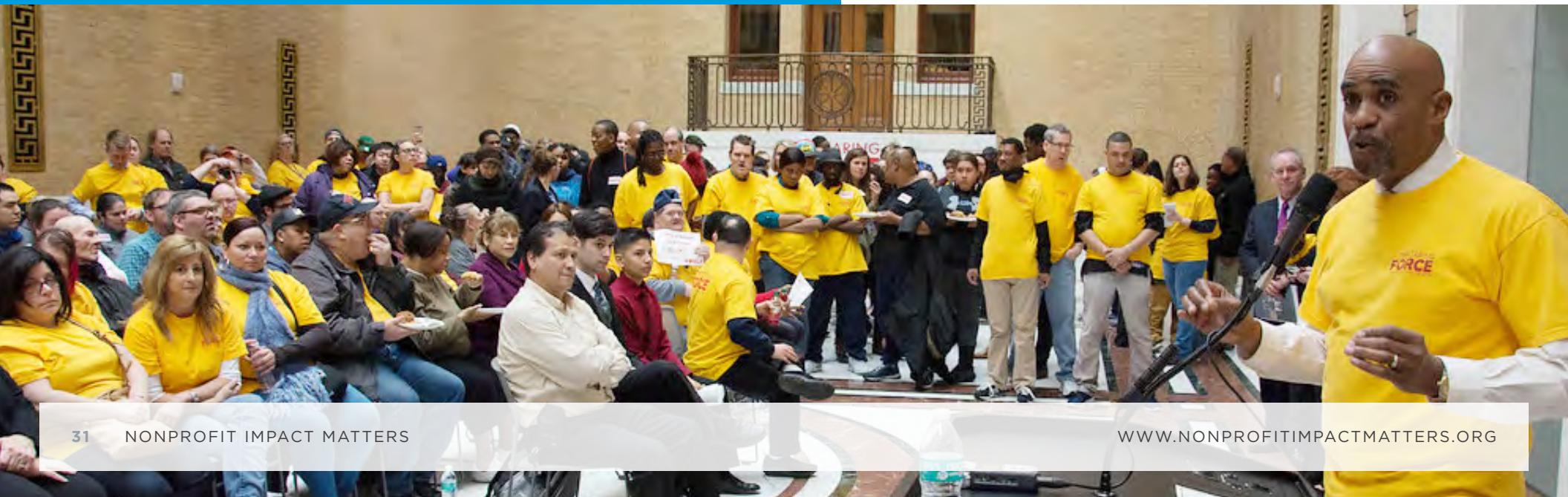
**AMPLIFY THE POWER OF
NONPROFIT NETWORKS**



**EMBRACE DIVERSITY,
EQUITY AND INCLUSION**



**ADVOCATE FOR
YOUR MISSION**

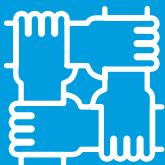




► PROTECT THE PUBLIC TRUST

Public trust is vital for every nonprofit. Without it, donations, volunteers, and more evaporate. Trust must be earned every day. There is no one-size-fits-all guide, no national standard on how to comply with legal requirements, because each state has its own set of laws for nonprofits. Many state associations of nonprofits have developed “**best practices**” programs, often known as “Principles and Practices”

or “Standards for Excellence,” based on the laws and proven practices in their states. The National Association of State Charity Officials (NASCO) provides links to the **offices of the lead charity regulators in each state**, some of which provide educational materials. Additionally, some subsector groups of nonprofits maintain specialized guidelines for certification and other purposes.



► AMPLIFY THE POWER OF NONPROFIT NETWORKS

Nonprofits face challenges larger and more complex than any one individual or organization can solve alone. We all can accomplish so much more by working together than struggling alone.

To paraphrase, no nonprofit is an island unto itself; each is a piece of the continent, a part of the main. (Want to know where that paraphrased quote comes from? Visit one of the **6,863 nonprofit libraries or library-affiliated nonprofits** in the country or learn more about John Donne’s poetry on Wikipedia, an impressive knowledge-sharing network run by the nonprofit Wikimedia Foundation.)

By looking beyond your own organization, individuals can connect with and learn from peers, while organizations can collaborate to discover innovative approaches and gain new allies.

Your voice—and your nonprofit’s mission—is more important than ever. You can amplify it by **joining the state association of nonprofits in your state**. Doing so places your nonprofit within a broader tapestry of interwoven networks providing immediate, tangible benefits to your organization, including advocacy support, education, discounts, peer learning, and camaraderie. Plus, by being a part of the movement, you will be connected to nonprofits of all missions and sizes across the country. Join and collaborate to improve the public’s appreciation of the work of all nonprofits, strengthen your internal operations, and create a favorable public policy environment at the local, state, and federal levels for advancing your nonprofit’s mission.



► EMBRACE DIVERSITY, EQUITY, AND INCLUSION

Rather than just “promote” the ideas of diversity, equity, and inclusion so others will take action, it’s time for nonprofits to directly “embrace”—“to hold closely in one’s arms,” “accept willingly and enthusiastically,” “include as a constituent part”—the values of diversity, equity, and inclusion within our own organizations.

Every nonprofit must find its own path on the journey to live up to the core values of diversity, equity, and

inclusion. There is no “one-size-fits-all” approach. We have identified on our website the best resources we could find about **why diversity, equity, and inclusion matter for nonprofits**. That webpage offers practice pointers and questions to consider, along with links to more than 50 resources for your nonprofit’s learning journey, materials about unconscious/implicit bias, information about diversity on nonprofit boards and in the nonprofit workforce, and other useful tools.



► ADVOCATE FOR YOUR MISSION

Nonprofits often work on the front lines of pressing social challenges. That position of being so close to the problems means that nonprofits are also closest to possible solutions. Nonprofits should not hoard these insights; rather, they should share their views of the actual problems and practical solutions so policymakers can make better-informed decisions.

It sometimes comes as a surprise to people in the nonprofit sector that we have the constitutional right, statutory authority, and moral obligation to advocate and even lobby on behalf of our organizations and the individuals and communities we serve. In fact, charitable nonprofits can—and absolutely should—speak out on matters of public policy that affect their missions.

Research shows that nonprofits with the most extraordinary levels of impact do not focus exclusively on either advocacy or direct service; rather, the highest-performing nonprofits do both, creating a virtuous cycle in which policy advocacy and service delivery each inform and enhance the impact of the other.

Yet, compared to the business sector and government sector, nonprofits have been sitting silently on the sidelines.

- **Mission-focused organizations are being out-positioned as advocates.**

For-profit businesses and governments recognize the value of engaging in lobbying activities. In 2016, the U.S. Chamber of Commerce had 158 registered lobbyists and lobbying expenditures of \$103,950,000, according to its **federal lobbying expenditure reports**. Meanwhile, government groups of all kinds—representing specific types of government officials (such as the National Governors Association) and levels of government (such as the National League of Cities)—lobby as well.

Individual nonprofits will never have enough money to lobby in the same way or to the same extent as the business sector (paid for by profits) or government sector (paid for by taxpayers). But we don't have to spend a lot of money to be effective advocates for our missions. Indeed, look at the examples above: Like-minded businesses and similarly situated governments and officials joined together to increase their lobbying power. Nonprofits can join together to lobby too. Otherwise, nonprofits are sidelined, leaving the playing field wide open for others.

to score policy wins that can hurt nonprofit missions. Advocacy is much broader than legislative lobbying. Advocacy also includes activities such as administrative advocacy (rule-making and enforcement), research and analysis (documenting the reach and effects of an issue), media advocacy (educating the public), and judicial advocacy (litigation and filing amicus briefs), to name a few.



Percentage of 501(c)(3) nonprofits that reported lobbying activities:
just 2.98 percent

Thus, lobbying activity is only a very loose proxy for measuring advocacy, which covers much more than just legislative lobbying.

Still, the numbers are startling when considering how very little lobbying nonprofits do.

For this report, we collected the newest-available data on how many 501(c)(3) nonprofits reported lobbying activities in 2016. The results are sobering: On average, fewer than 3 percent of nonprofits engaged in any lobbying at the local,

state, or federal levels. Just 3 percent, compared to the 100 percent with the legal right to do so.

That's not to say that every nonprofit should immediately start lobbying Congress, its state legislature, and city hall. But common sense says that if 97 percent of nonprofits are passive, sitting quietly and politely on the sidelines, not standing for or speaking out for their missions, then nonprofits are ceding the playing field to others who will influence decisions by policymakers, potentially endangering nonprofits' missions and the people and communities they serve.

That's in part why BoardSource and five collaborating groups came together a few years ago to provide greater clarity about the importance of nonprofit advocacy. Among other things, BoardSource rewrote some of its core materials to declare the "expectation" that nonprofit board members will engage in advocacy. For more information, check out the Stand for Your Mission initiative.



For more information,
check out the **Stand for
Your Mission** initiative.

Advocacy How-Tos

Advocacy is far easier (and more fun) than most people realize. Your nonprofit doesn't have to hire a lobbyist or devote staff to full-time hobnobbing at the statehouse.

First, become informed about the issues that can help or hinder not only your organization, but also the broader nonprofit community of which you are a part. You can turn to [state associations of nonprofits](#) to learn more about pressing policy issues in your state.

To start, nonprofit staff and board members can begin each morning by asking themselves this simple question: **“Who can I talk to today to advance my nonprofit’s mission?”**

When you speak with a journalist about a community problem, that's advocacy. Talking with members of a civic club to recruit volunteers for a community project is advocacy. So is visiting with the mayor to share new data about your nonprofit's positive impact. **Advocacy is simply promoting the nonprofit's mission through engagement with others.**

Advocating to change laws and policies is simply a natural extension of direct service and can be a positive multiplier. Food banks provide food for people in crisis—and advocate for public policies that ensure people have access to wholesome, affordable meals all the time. Conservation groups clean trails—and advocate for laws that encourage people to donate land for preservation. Habitat for Humanity helps people build individual homes—and advocates for federal programs that support quality, affordable homes for all Americans. Often, the “who can I talk to today?” is an elected official or government policymaker.

Click to watch



This simple “thank-you” video shows a nonprofit successfully engaging with elected officials. It was created as part of the Delaware Alliance for Nonprofit Advancement's **#ThankYouDE campaign.**

The nonprofit tagged legislative groups [on Facebook](#); lawmakers then shared the video, adding their own comments. Gestures like this recognize government partners for their support and increase the chances they and their colleagues will remember the good work of your nonprofit—and be supportive in the future.



Advocacy tools are readily available and often free. Among other things, you can:

- Join your **state association of nonprofits** to add your voice to those of other nonprofits in your state.
- Attend an advocacy day with other nonprofits at your state capitol to build relationships.
- Meet with public officials to share your insights from the front lines.
- Write an op-ed or letter to the editor to inform the broader community.
- Record brief videos and podcasts to deliver your advocacy message to audiences that otherwise wouldn't have access.
- Know your rights—and your legal limits—so your organization can take full advantage of participating in the public policy process. [Learn about the 501\(h\) election](#)—and share that information with your nonprofit's legal or accounting advisors if they're trying to resist and hold you back on the passive sideline.
- If you're an attorney or CPA advising nonprofits, be informed; don't trample on your clients' constitutional rights by advising them to avoid all advocacy.
- If you're a foundation board or staff member, review your foundation's grant agreements to make sure they don't contain inappropriate prohibitions against nonprofit advocacy.
- Check out **Stand for Your Mission**, a great resource for nonprofit boards to engage in advocacy.
- Subscribe to the National Council of Nonprofits' free, biweekly e-newsletter, ***Nonprofit Advocacy Matters***, for updates about federal, state, and local policy matters of concern to most nonprofits.
- Learn more about "[Everyday Advocacy](#)."

► Which of these boxes can your nonprofit check off its advocacy list?

Why This Matters

Nonprofits Need to Get in the Game

The 501(c)(3) nonprofit community has been hurt, repeatedly, in the public policy arena by ignoring threats and by underinvesting and under-engaging in advocacy. Too many nonprofits have been sitting on the sidelines instead of leveraging their unique knowledge to help make sure public policies address real needs and reflect American values.

The nonprofit community will never be able to compete with the billions of dollars spent nationally on lobbying every year by corporations and governments, let alone the billions more spent on political campaign contributions.

Instead, nonprofits' strength is in numbers. Nonprofits exist in every community, are closest to the problems, and understand the issues. Since nonprofits see the solutions to the community's challenges firsthand, nonprofits should be sharing their insights with policymakers to help them make informed decisions. Policymakers deserve—and need—to hear the voices of



Supporters of the Connecticut Community Nonprofit Alliance telling legislators that community services are essential (image courtesy of the Alliance).

their constituents, who often find it easier to work with others through nonprofits.

That's as true at the state and local levels of government, where nonprofit voices aren't heard enough, as at the federal level. In many ways, policies set at the state and local levels can have even more importance for the work of nonprofits. As the chart in the previous section illustrated, most public policy decisions are made at the state and local levels.

For the sake of their missions and the individuals and communities they serve, nonprofits must get off the bench and advocate. It's our constitutional right and moral obligation to do so.



Nonprofits provide vital leadership in building and sustaining thriving communities across the country. We're economic powerhouses, champions of democracy, and promoters of civic engagement. When we come together to amplify our voices, we're a powerful force for more equitable communities and the common good.

— Donna Murray-Brown, Board Chair

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Visit www.NonprofitImpactMatters.org to:

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- See a list of sources of citations in the report; and
- Find an expanded version of this report—including data and updates.

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