

What is the Nonprofit Sector?

Today's objective

- “What is the nonprofit sector?”
- “What is the size or scope of the US nonprofit sector?”
- “How to classify the beast?”

The “nonprofit sector” is the collective name used to describe institutions and organizations in US society that are neither government nor business.

Nomenclature and Ideological or Historical Origins

- ▶ Nonprofit or Not-for-profit Sector
- ▶ Charitable Sector
- ▶ Independent Sector
- ▶ Tax-Exempt Sector
- ▶ Third Sector
- ▶ Voluntary Sector
- ▶ Nongovernmental Sector

Six Defining Characteristics

- ▶ Organizations;
- ▶ Private, as opposed to governmental;
- ▶ Non-profit-distributing;
- ▶ Self-governing
- ▶ Voluntary; and
- ▶ Of public benefit

(Salamon, 1999)

Functions of the Nonprofit Sector

- ▶ Service provision
- ▶ Value guardian
- ▶ Advocacy/Problem Identification
- ▶ Community-building

(Salamon, 1999)

Nonprofits are rapidly expanding in numbers, scope, and importance



The Nonprofit Sector in Brief



- ▶ **1.57 million+ tax-exempt organizations:**
 - Over 1 million are public charities
 - 105,030 private foundations
 - 368,337 other types
- ▶ The nonprofit sector contributed an estimated **\$905.9 billion** to the US economy in 2013, composing **5.4%** of the country's GDP

(Source: Urban Institute, 2015; NCCS, 2017)

... and more

- ▶ 1.57 million + registered with the IRS
- ▶ Religious congregations and organizations < \$50,000 in annual revenue - not required to file forms 990/990-EZ
- ▶ ~312,373 congregations

Employment

- Nonprofit employees: 14.4 million in 2013
- Percentage of total U.S. private sector workforce: 10.6%
 - High %: The District of Columbia, 27%
 - Low %: Nevada, 3%

Source: U.S. Bureau of Labor Statistics, 2014

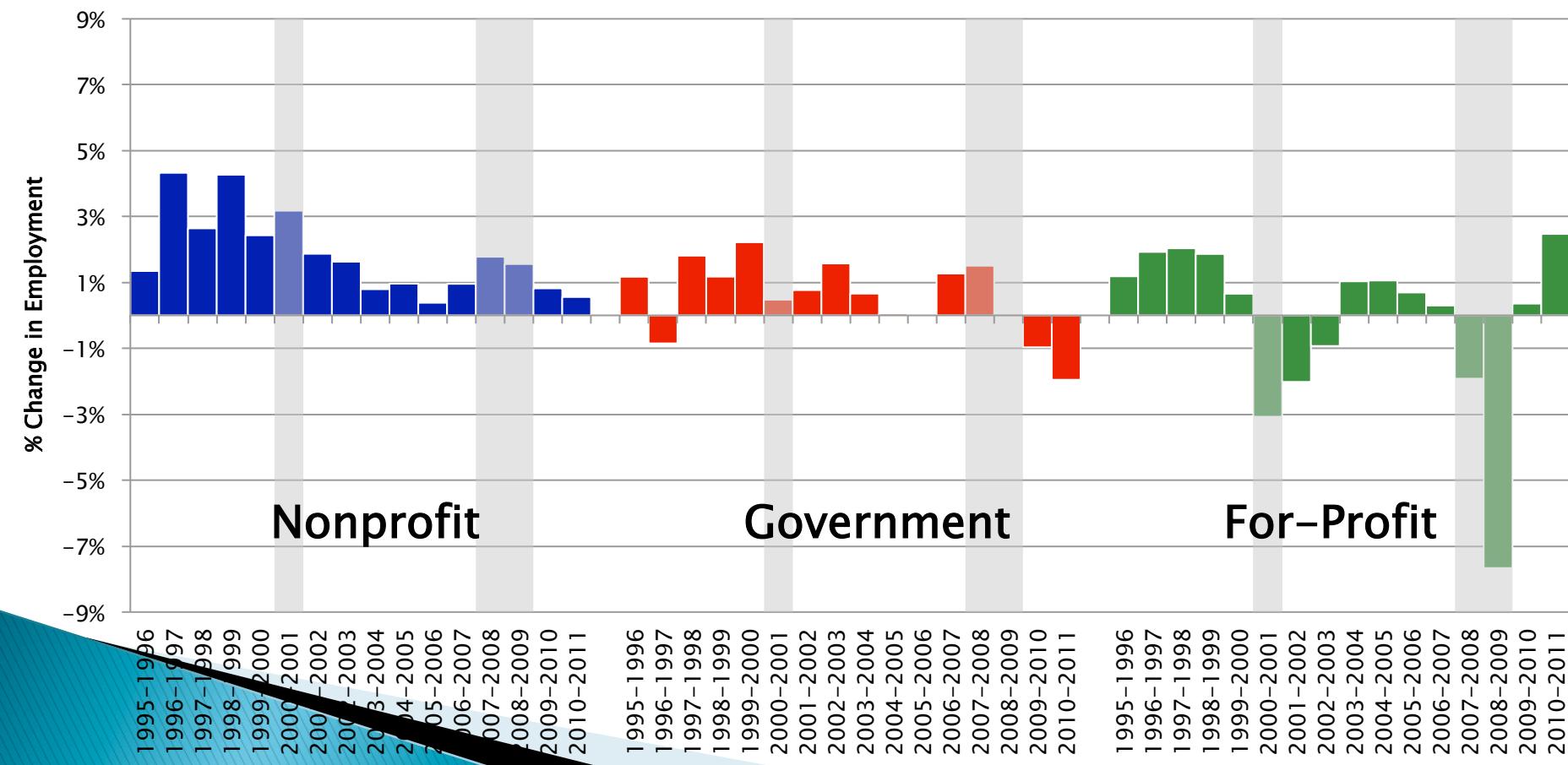
Employment

- “More individuals work for nonprofit employers than are employed in *national defense, construction, real estate, and space research combined.*”

Source: National Council of Nonprofits, 2017

Even in a bad economy

- ▶ The Indiana nonprofit sector grew notably faster than the for-profit or government sectors between 1995 and 2011 – even during recessions

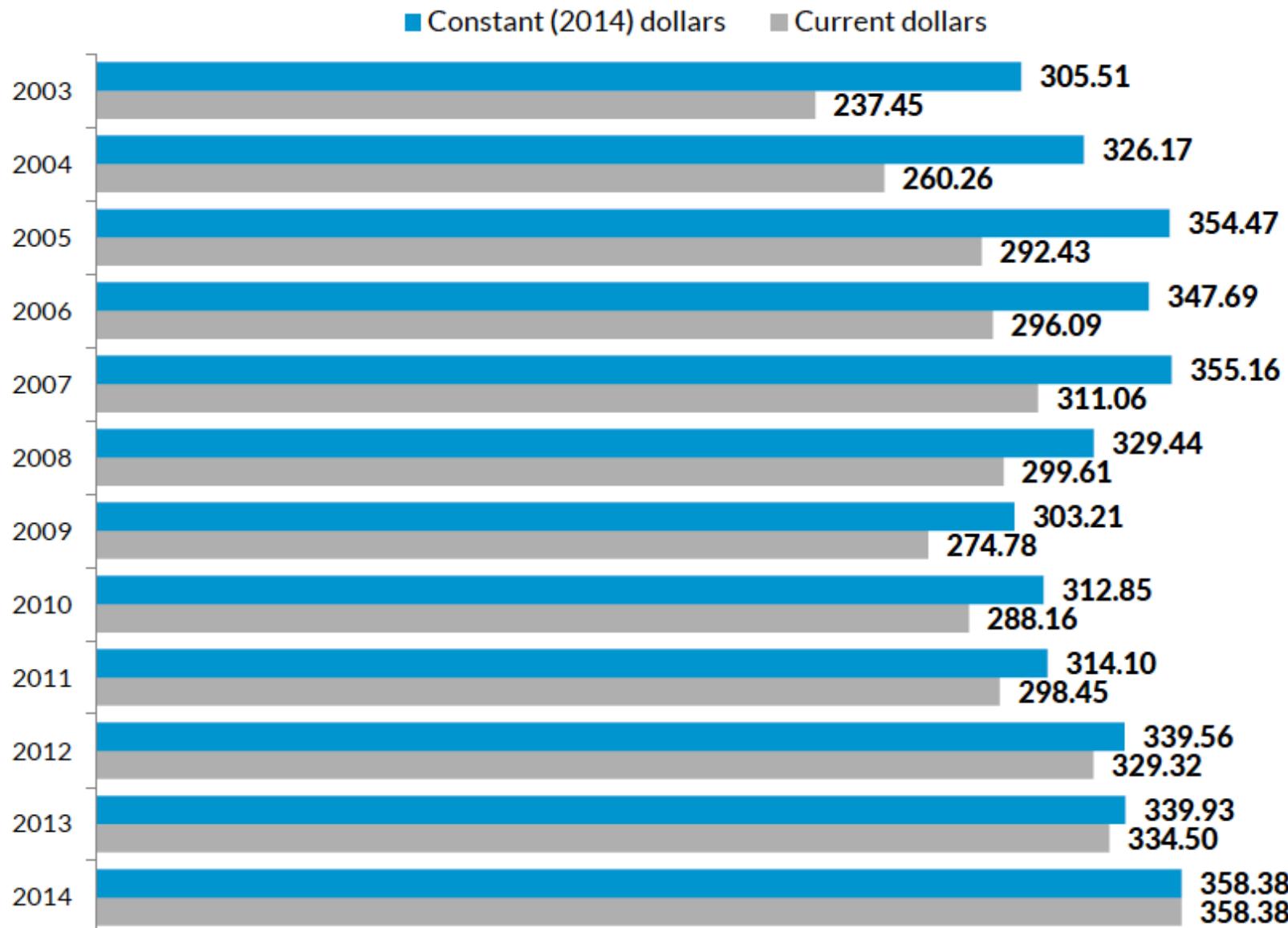


Giving

- ▶ **\$358.38 billion in 2014**
 - Congregations and religious organizations 32%
 - Education organizations 15%
 - Human service organizations 12%

FIGURE 3

Private Charitable Contributions, 2003-14



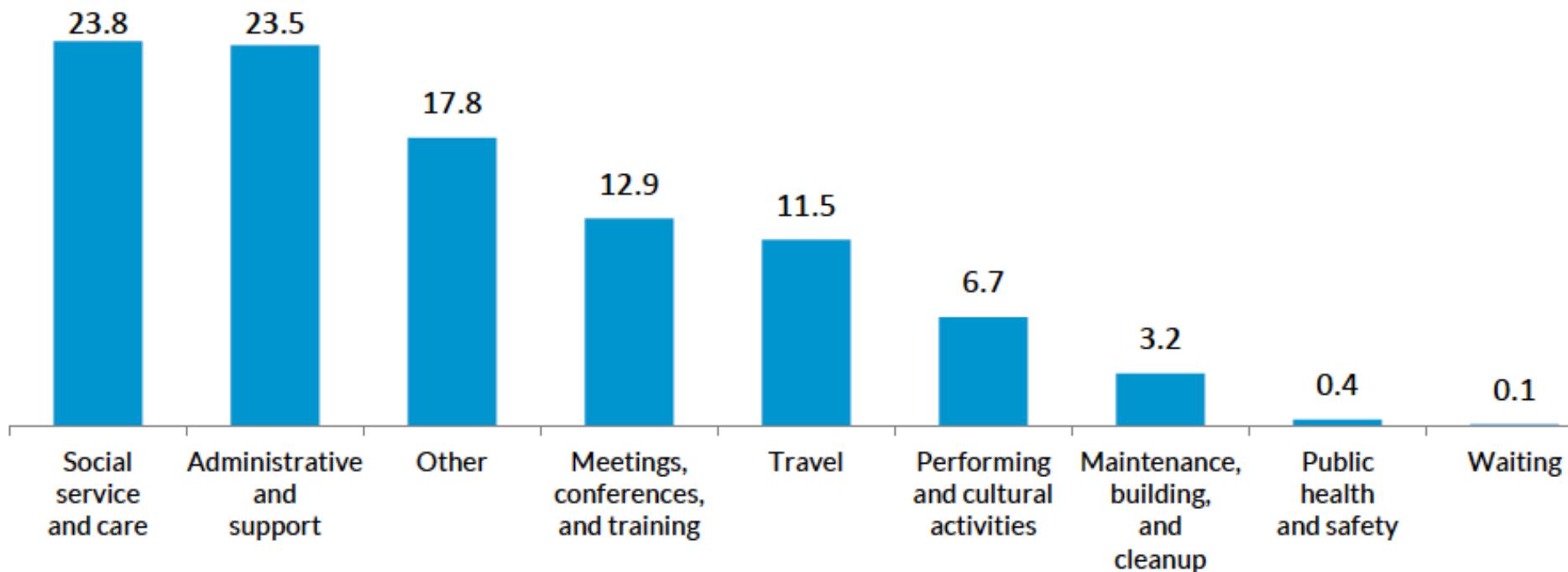
Source: Giving USA Foundation (2015).

Volunteering

- ▶ **25%** of Americans, age 16 and older, volunteered at least once between Sep 2014 – Sep 2015
 - (About 63 million people)
- ▶ On average, 52 hours annually per person
- ▶ Est. value for volunteer time = \$24.14/hour
- ▶ => **\$1.5 trillion** contributed value of time

FIGURE 5

Distribution of Average Volunteer Time by Activity, 2014 (Percent)



Source: Authors' calculations based on US Department of Labor, Bureau of Labor Statistics, American Time Use Survey 2014.

How to classify the beast

► **Organizational level**

- **Legal structure** – IRS, state authorities (incorporation)
- **Economic activity** – SIC/NAICS (employment, economic census)
 - Exempt data for key industries: health/social assistance, education, arts/ entertainment/recreation, religious/ grantmaking/civic/professional
- **Mission** – NTEE (NCCS, IRS, Guidestar) – Arts/culture, education, environment/animals, health, human services, international, public benefit, mutual benefit, religion
- **Other ways**
 - Target/beneficiary groups, member characteristics
 - Geography, auspices, affiliations; funding profile

How to classify the beast

► Individual level

- Behavior
 - Varieties: type of contribution, involvement, work
 - Intensity, amounts
- Motivations
- Social characteristics
- Settings: types of organizations

Major sources of information

► Organization/sector level

- IRS EO: subsection, Form 990 → NCCS, Guidestar, Foundation Center (all NTEE)
- Quintennial economic census: private establishments (exempt/non-exempt for key industries, gov't hospitals): NAICS
- CEW/ES-202: quarterly covered employment & wage survey → all establishments (public & private sectors, IRS exempt match): NAICS
- Directories and special surveys

► Individual level

- BLS/Current population survey – volunteering
- American time use survey (ATUS) – volunteering & other activities

Major Organizational Subcategories

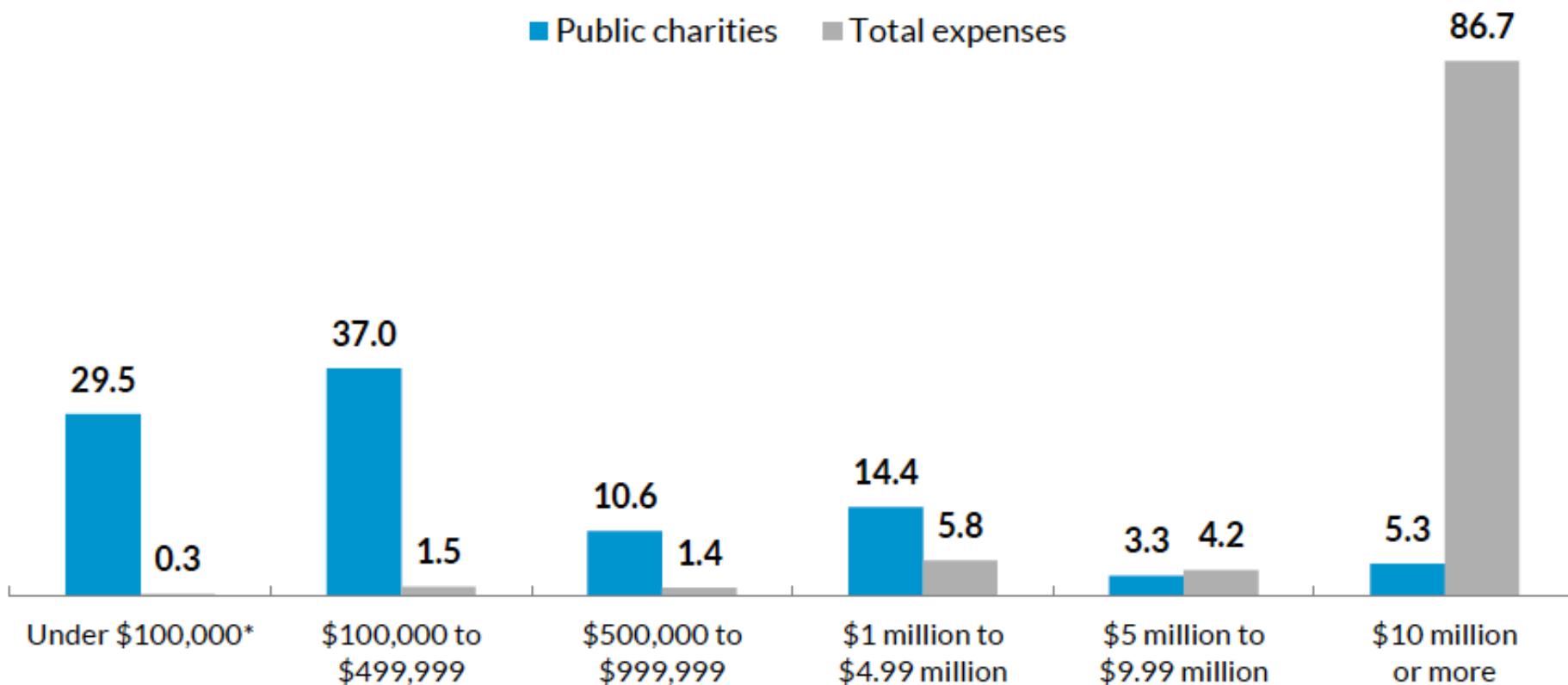
- ▶ **501 (C) 3 Organizations**
 - Foundations are also 501 (C) 3 Organizations
- ▶ **501 (C) 4 Organizations**
- ▶ **501 (C) 5 Organizations**
- ▶ **501 (C) 6 Organizations**
- ▶

501 (C) 3 Organizations

- ▶ **Charities:** Nonprofits that are exempt under IRS Section 501(c)(3) are often called charities or public benefit organizations.
 - Hospitals, museums and orchestras, private schools, public television and radio stations, and many other organizations are typically 501 (c)(3) nonprofit organizations.

FIGURE 1

Number and Expenses of Reporting Public Charities as a Percentage of All Reporting Public Charities and Expenses, 2013



Source: Urban Institute, National Center for Charitable Statistics, Core Files (Public Charities, 2013).

TABLE 2

Number and Finances of Reporting Public Charities by Subsector, 2013

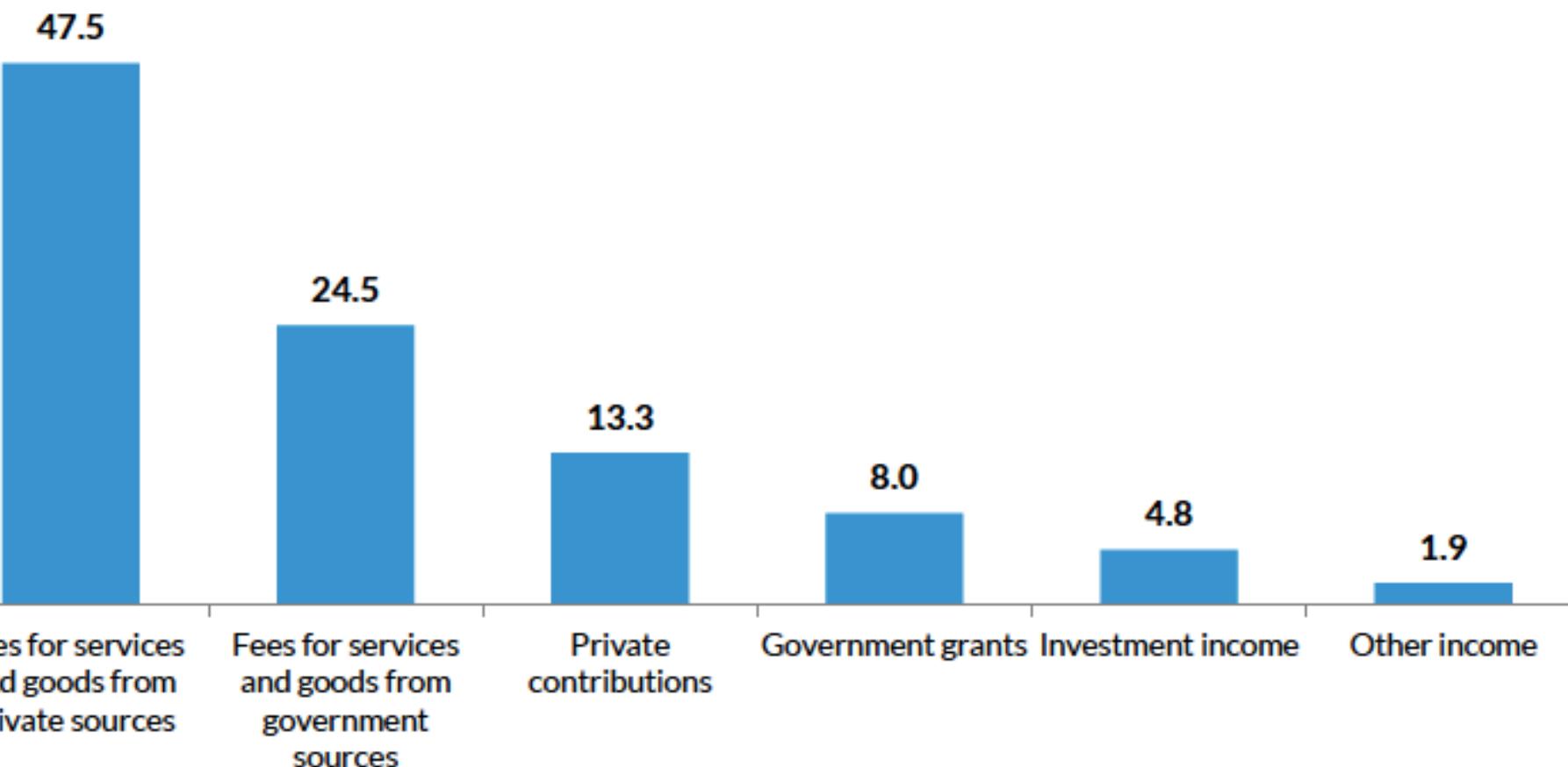
			Dollar Total (Billions)
	Number	Percentage of total	Revenues Expenses Assets
All public charities	293,103	100.0	1,734.1 1,623.8 3,225.0
<i>Arts, culture, and humanities</i>	29,136	9.9	33.6 30.2 110.7
<i>Education</i>	50,262	17.1	296.3 269.2 958.1
Higher education	2,050	0.7	188.1 174.6 617.7
Other education	48,212	16.4	108.2 94.6 340.3
<i>Environment and animals</i>	13,283	4.5	16.7 14.7 41.4
<i>Health</i>	37,732	12.9	1,025.3 975.8 1,392.8
Hospitals and primary care facilities	7,062	2.4	864.0 823.9 1,133.5
Other health care	30,670	10.5	161.3 151.9 259.3
<i>Human services</i>	104,002	35.5	214.2 206.9 331.5
<i>International and foreign affairs</i>	6,305	2.2	32.4 30.8 39.3
<i>Public and social benefit</i>	34,081	11.6	100.2 82.8 315.2
<i>Religion-related</i>	18,302	6.2	15.4 13.5 36.0

Source: Urban Institute, National Center for Charitable Statistics, Core Files (Public Charities, 2013).

Note: Subtotals may not sum to totals because of rounding.

FIGURE 2

Revenue Sources for Reporting Public Charities, 2013 (Percent)



Sources: National Center for Charitable Statistics calculations of IRS Statistics of Income Division Exempt Organizations Sample (2009, 2011); Urban Institute, National Center for Charitable Statistics, Core Files (Public Charities, 2013); American Hospital Association 2012 survey; and National Health Accounts (Centers for Medicare and Medicaid Services).

Foundations

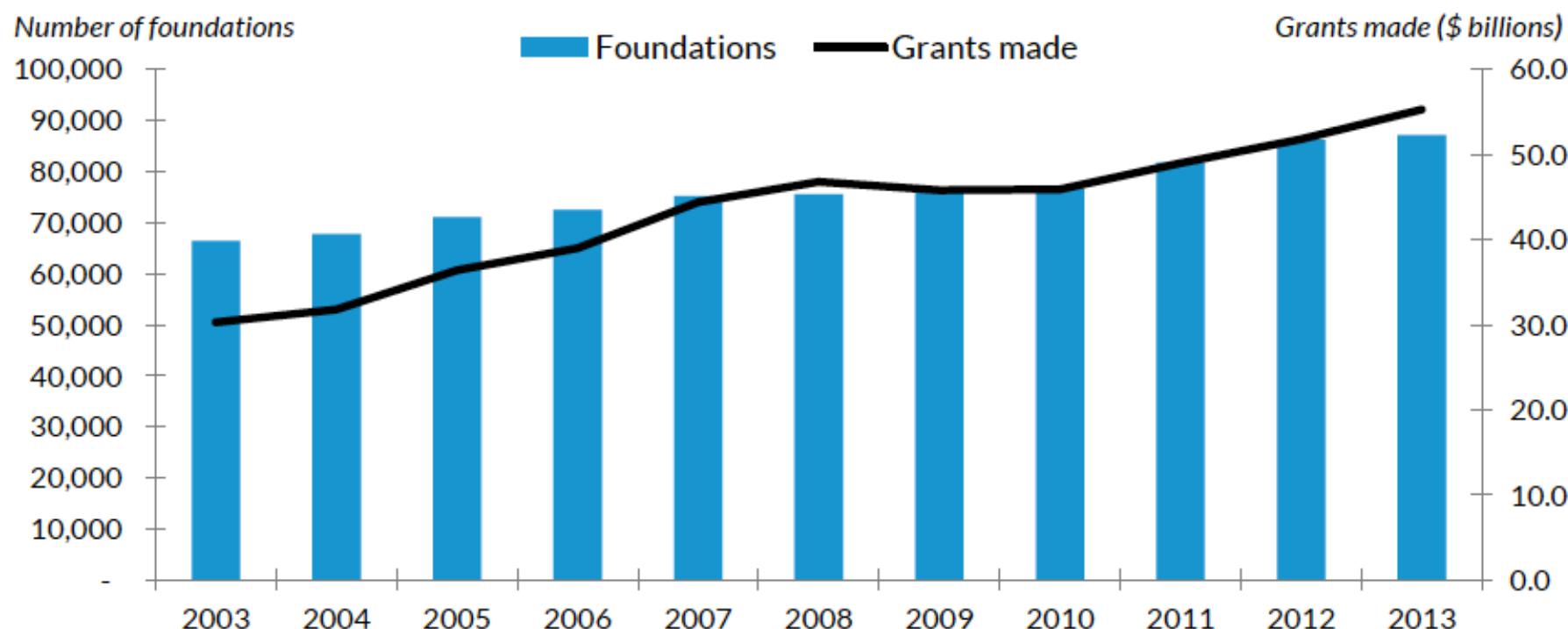
- ▶ Foundations are also 501 (c)(3) nonprofits and are one of the most complex components of the nonprofit sector.
- ▶ The Foundation Center estimates there were more than 87,142 grant-making foundations in the United States in 2013

Primary Types of Foundations

- ▶ Private Foundations
 - ▶ Community Foundations
 - ▶ Corporate Foundations
 - ▶ Operating Foundations
-
- ▶ All private foundations, regardless of size, are required to file a Form 990-PF.

FIGURE 4

Number of Foundations and Amount of Grants Made by Year, 2003–13



Source: Foundation Center Growth and Giving Estimates (2015).

Private foundations vs. public charities 1: contribution rules (for individuals)

Contribution Rules for Donors	Private Foundations	Public Charities
Limits on gifts of cash	30% of donor's Adjusted Gross Income	50% of donors Adjusted Gross Income
Publicly traded securities*	Fair market value	Fair market value
Other appreciated property*	Cost basis only	Fair market value
Limits on gifts of appreciated property*	20% of donor's Adjusted Gross Income	30% of donor's Adjusted Gross Income

*Subject to capital gains taxes

Private foundations vs. public charities 2: administrative rules

Administrative Rules	Private Foundations	Public Charities
Pay excise tax	1-2% of investment income	None
Required payout levels	5% of assets or more	No minimum
Limits on excess business holdings	Yes (generally 20%)*	No
Donor control	Legal/formal	Advisory
Anonymity	No: file details on grants, salaries, investments, fees	Yes: donors & grants are private

*35% if someone else has effective control

501 (C) 4 Organizations

- ▶ **Social Welfare Organizations:** Nonprofits such as the National Association for the Advancement of Colored People, the National Rifle Association, and the National Organization for Women are exempt under section 501(c)(4) of the tax code.
 - Contributions to 501(c)(4) organizations are not tax-deductible, and 501(c)(4) nonprofits have greater latitude to participate in legislative advocacy, lobbying, and political campaign activities.

501 (C) 5 Organizations

- ▶ Provides for exemption of labor, agricultural or horticultural organizations. To be exempt, an organization must meet the following requirements
 - The net earnings of the organization may not inure to the benefit of any member
 - The objects of the organization must be the betterment of conditions of those engaged in the pursuits of labor, agriculture, or horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

501 (C) 6 Organizations

- ▶ **Professional and Trade Associations:** Chambers of commerce, business leagues, and other organizations that promote the business or professional interests of a community, an industry, or a profession generally qualify for tax-exemption under Section 501(c)(6) of the tax code.
 - Although contributions to these organizations are not tax-deductible, membership dues may be deductible as business expenses.

- 501(c)(7) Social and recreational clubs
-
- 501(c)(8) Fraternal beneficiary societies and associations, which provide payment of life, sickness, accident or other benefits to members
-
- 501(c)(9) Voluntary employees beneficiary associations, which provide payment of life, sickness, accident or other benefits to members
-
- 501(c)(10) Domestic fraternal societies and associations, which devote its net earnings to charitable, fraternal and other specified purposes, but NOT to provide life, sickness, or accident benefits to its members
-
- 501(c)(11) Teachers' retirement fund associations
-
- 501(c)(12) Benevolent life insurance associations, irrigation companies, telephone companies, etc., which have a mutually beneficial nature
-
- 501(c)(13) Cemetery companies
-
- 501(c)(14) State-chartered credit unions and mutual reserve funds
-
- 501(c)(15) Mutual insurance companies or associations which provide insurance to members substantially at cost

Activity

- ▶ Which sector does it belong to?

Public

Nonprofit

Private

- (1) Indiana University; (2) Harvard University;
- (3) the Rockefeller Foundation;
- (4) Amazon; (5) Environmental Protection Agency;
- (6) Hoosier Hills Food Bank;
- (7) The Greater Bloomington Chamber of Commerce; (8) BCT(Buskirk–Chumley Theater) Management, Inc.;
- (9) Charter schools; (10) Monroe Hospital;
- (11) Kroger; (12) Uber; (13) Boy Scout of America;
- (14) Museum of Science and Industry;
- (15) The National Collegiate Athletic Association (NCAA)

Fuzzy boundaries

- ▶ In what features of the nonprofit sector do we find the greatest distinctiveness?
 - Absence of ownership?
 - Tax-exempt status?
 - (Non-distribution constraint)?
 - Culture, values and norms, ideals?
 - Functions performed?
 - Governance and decision-making?

Fuzzy boundaries

- ▶ Quasi-Nongovernmental Organization
 - GONGOs: government-organized non-governmental organizations
- ▶ Hybrid Organizations
 - Some social enterprises with dual-mission
 - E.g. Hot Bread Kitchen
- ▶ “Business-like” Nonprofits

Key take-away ideas

- ▶ Large number of organizations
- ▶ Important part of the U.S. economy
 - Esp. health, education, and human services
- ▶ Important part of people's lives
 - Religion, community engagement, civic/political involvement, mutual benefit interests
- ▶ Multiple ways to classify
- ▶ “Fuzzy boundaries”