Policy Brief

Putnam Barber* and Steven Rathgeb Smith

Regulation of "Classic" Community-Based Charitable Organizations

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Abstract: Tax-exempt organizations in the United States are, in general, required to file regular reports on their operations with the Internal Revenue Service (IRS). These filings represent a significant burden for the filing organizations, are a critical source of information for many observers, and are relied upon by regulators and donors as indicators of the organizations' commitment to achieving the wide variety of purposes for which the exemptions are granted. This paper recommends that the resources of the IRS be refocused so that greater attention can be paid to complex organizations, while the burden of preparing annual filings by simpler organization is also reduced. More generally, this paper also recommends that new attention be paid to the information collected and to its publication. It argues that the needs of the public and other regulatory agencies are not well-served by the current information and that the limitations on currently available information contribute to misunderstanding of and cynicism about the role of charitable nonprofits in American life.

Keywords: internal revenue service, classification of public charities, nonprofit data

1 Introduction

This paper arises out of a widespread feeling, which the authors share, that America's nonprofit organizations are increasingly both under-regulated by state and federal authorities and faced with increasing demands for accountability, transparency, and evidence of efficacy from public and philanthropic funders. Others have identified and addressed these issues, of course (Henrickson, Smith, and Zimmer 2012; Smith and Phillips 2016; Thornley, Anderson, and Dixon 2015).

***Corresponding author: Putnam Barber**, Retired, University of Washington, Seattle, USA, E-mail: putnam.barber@gmail.com
Steven Rathgeb Smith, Executive Director, American Political Science Association, and Adjunct Professor, Georgetown University, Washington, DC, USA

In this paper, we consider policy changes that would shift the attention of the Internal Revenue Service's Tax-Exempt and Government Entities Division (TEGE) away from exempt organizations with little capacity to cause significant economic and community harm and toward improved capacity to oversee large and complex organizations. We propose to simplify the reporting required of the first category of organizations, the sorts of public charities we describe as "classic," and focus the reported information on aspects of nonprofit management which are readily observable by attentive stakeholders and characterized by clear-cut standards. By these changes, we hope to increase the role of involved whistleblowers and local regulators in addressing the occasional lapses by smaller, geographically limited organizations. We also urge that Congress increase decisively the resources available to TEGE while directing the agency to monitor, investigate, and, when necessary, constrain the behavior of the small number of large, extremely complex organizations which do have the capacity to do financial damage as well as injury to the populations that they claim to serve.

2 Background

Widespread agreement and concern exist that the regulation of US charitable organizations has become increasingly ineffective in recent years. Among the many factors that are cited as contributing to this trend are:

- Increasing numbers of registered tax-exempt organizations;
- Fiscal limitations on government at both the federal and the state levels;[1]
- Increasing numbers of active fundraising campaigns;
- Court decisions enabling more engagement by charitable nonprofits with policymakers and in political activities;
- Development of a variety of quasi-nonprofit organizations broadly described as social enterprises; and
- Increasing reliance on supporting organizations and complex corporate structures by large and mid-size nonprofit organizations.

2.1 Policy Proposals

The recommendations we make in this policy brief would improve the regulation of charitable nonprofits by:

1 The degree to which the relevant division of the IRS has been limited by budgetary constraints in recent years is documented in Treasury (2018), pp. 269ff. For information on staffing of state government charities offices, see Lott et al. (2016), p. 8.

- Simplifying registration and reporting standards for smaller tax-exempt organizations;
- Reducing the cost and complexity of compliance for these community-based charitable organizations;
- Expanding capacity for the Internal Revenue Service to focus attention on large and complex public charities; and
- Increasing the value of information published by the IRS for policy makers, scholars, and the public.

2.2 Change Reporting Requirements for Smaller Public Charities

The overwhelming majority of US nonprofit organizations can accurately be described as "small" – by one estimate, 90% of registered public charities had less than $500,000 in annual revenue.[2] In contrast, a significant number of large nonprofit organizations are very complex – often comprised multiple units within one controlling entity and several loosely integrated traditional nonprofits, social enterprise units, for-profit subsidiaries, and networks of affiliates. In 2015, just 5.3% of public charities reported annual revenues of $10 million or more on Form 990[3] (McKeever 2018).

In these policy proposals, we argue that a subsection should be added to Internal Revenue Code §501(c) specifying the responsibilities of the Internal Revenue Service for overseeing the activities of "classic" charitable organizations and that Congress at the same time add resources to the budget for TEGE linked to encouragement to increase scrutiny of the largest and most complex filers. We chose the term "classic" with a nod to Alexis de Tocqueville and his description in the 1830s of American's reliance on associations to provide familiar community

2 Estimating the number of "small" nonprofits are complicated by the filing rules of the IRS. Public charities with annual revenues between $5000 and $50,000 file a simple form (the 990-N) which confirms their continued existence but includes no financial data; most organizations whose revenues are at least $50,000 and less than $200,000 and with year-end assets less than $500,000 file a more complicated but still abbreviated form (the 990-EZ), while those which exceed either of those limits file a complete Form 990. Using data for fiscal year 2015, the National Center for Charitable Statistics provides statistics that indicate that 90% of all public charities had revenues less than $500,000 in that year (this estimate combines 990-N filers, 990-EZ filers, and 990 filers with revenue less than $500,000).

3 Including the 990-N filers in the estimate of the total number of public charities changes that result – organizations with over $10 million in annual revenue accounted for about 1.5% of all registered public charities in 2015.

and social services. Precise definition of the distinction between the organizations described by this new subsection and those that remain within the current description would be a subject for careful legislative drafting following broad public discussion and Congressional hearings. A preliminary list of criteria might include:

- Less than a low threshold number of paid staff – perhaps as few as 20;
- Less than three contracts for services (other than those for legal advice and accounting);
- No wholly owned subsidiaries;
- No franchising agreements;
- No intellectual property licensing or other royalty income;
- At most one fund-raising support organization or auxiliary; and
- Supported locally, primarily by individual donors and small-scale grants and contracts.[4]

Organizations that meet these criteria would have little scope for inflicting harm or supporting significant financial misdeeds and are also more closely integrated into the communities they serve and thus subject to ongoing informal scrutiny.

Accompanying this new provision of law governing tax-exempt organization would be new versions of the familiar Form 1023 – call it Form 1023-EZR – and Form 990 – call it 990-neo. The Form 1023-EZR would be used by newly formed "classic" charitable organizations seeking recognition as exempt from corporate income taxes. It would parallel the sections of the current IRS Form 1023 where the organization seeking tax-exempt status describes its corporate form and intended programs, lists its board members, and generally commits to engaging exclusively in charitable activities. In contrast to the current version of Form 1023, the new Form 1023-EZR would simply require the nonprofit organization to certify by affirming a series of specific declarations that it would, for as long as it relied on the requested exemption, operate within the limits included in the Act authorizing this form of exempt organization.

The Form 990-neo would follow the model of the recently developed Form 990-N (see Figure 1). Filing it would be entirely online. In the body of the form, eligible organizations would provide limited current financial information and reaffirm each of the characteristics required for eligibility. Electronic filing would make this information immediately available to the Internal Revenue Service (IRS), and hence to the public. Any eligible, currently recognized tax-exempt organization could also use the Form 990-neo for their next required Form 990 filing.

4 The intention behind this criterion is to render ineligible organizations which are dependent on such a limited range of supporters that they cannot credibly operate independently.

Obviously, organizations that use the Form 1023-EZR to apply for recognition would use the new 990 form annually so long as their operations continued to meet the eligibility criteria. As Figure 1 demonstrates, most of the information needed to complete the form would be matters of common knowledge to the executives of an eligible exempt organization. The item requiring a calculation of the proportion of total revenue from small donations, fees for service, and grants of $5000 or less would, probably, in the ordinary course of events not be readily accessible without specific accounting procedures. These amounts, though, are likely to be useful as indicators for assessing the organization’s fundraising efforts and, hence, worth the effort required to maintain the necessary records and perform the required calculation.

An organization that fails to meet one or more of the eligibility requirements during the reporting year would file the Form 990-neo as usual on its due date while committing (by checking the box on the form) to bring its operations into compliance within a year or to file a standard Form 990 or 990-EZ on the required filing date for the current year.[5] This provision allows a one-year grace period before the more elaborate filing is required. As with all versions of the Form 990, failure to file for three successive years would result in automatic revocation of the organization’s tax-exempt status.

An outside estimate of the number of 501(c)(3) organizations that might be eligible to identify themselves as “classic” is somewhat less than the number of 990-EZ filers – that is, less than 170,000. It would be difficult to estimate how much less given the limits on the information available on standard IRS forms.[6] It is clear that the number, no matter what the final tally, would be hardly enough to offer a serious reduction in workload for the staff of the TEGE division of the IRS.

A practical advantage of the collection and publication of the information on the Form 990-neo is that these characteristics of the organizations we are calling “classic” are, for the most part, readily observable by staff, volunteers, donors, and (at least in some cases) by even less closely related community members. Such stakeholders might therefore be well-positioned to observe misstatements by any organization that filed an inaccurate 990-neo. Further, since meeting a local requirement by filing a misleading federal report is against the law in many states, local authorities in the state where the deceptive organization operates would often have a clear-cut basis for intervention. If the errors reflected only mistakes of reporting – in contrast to active efforts to evade requirements of the law – the

5 An organization that initially registered with the IRS using the Form 1023-neo would also be required to file an informational version of the appropriate Form 1023 at that time.

6 Appendix A offers suggestions for making an estimate of the number of 990-EZ filers who would be excluded from the “classic” category by the criteria described above.

Financial Information

Fiscal year end (month): _______________

a) Previous year-end net assets $____________________

b) Current year total revenue (including gifts, grants, and contributions) $_____________

c) Current year total (gross) program service revenue. . . . . $ _____________

d) Current year total expenditures. . . . . $ _____________

e) *Subtract* line d) from line b). . . . . $_____________

f) *Add* line e) to line a). . . . . $ _____________

g) Current year-end net assets . . . . $ _____________

Note: If line g) does not equal line f) attach a Schedule O with an explanation of the difference

Did the organization employ or contract with an outside firm to raise money on its behalf? Y__ N__

If *yes*, list the states where the organization is registered with the state charity official in Schedule O.

Operational Information		
Number of full-time equivalent employees		If more than 20, see Instructions
Number of contracts for services supplied **to** the organization (not **for** services by the organization); do not count legal advisors and accountants assisting with filings with the IRS		If more than 3, see Instructions
Number of wholly owned subsidiaries		If more than 0, see Instructions
Number of franchising agreements		If more than 0, see Instructions
Number of intellectual property licenses		If more than 0, see Instructions
Number of fundraising support organizations or auxiliaries; do not count volunteer guilds or clubs		If more than 1, see Instructions
Proportion of total revenue in the previous fiscal year derived from personal donations of $500 or less, fees for services, and grants not exceeding $5,000		If less than 51%, see Instructions

Certification		
The organization expects to conform to the above standards for recognition as a "classic" charitable organization during the current fiscal year.	☐	If this box is not checked, the organization must file a Form 990-EZ or Form 990 for the current fiscal year. Further, if the original form filed for recognition as tax-exempt was a Form 1023-EZR, that filing must be accompanied by a completed Form 1023 or 1023-EZ.

Instructions: If directed to this section, Form 990-neo may be filed for this reporting period by organizations that will be fully compliant within the next reporting period; otherwise file Form 990-EZ or Form 990.

Figure 1: Key data fields in the proposed form 990-neo.

Attorney General or Secretary of State might simply require filing of an amended return without calling undue attention to the errors. In more troubling cases, the government's inquiry could lead to enforcement action based on the local regulator's existing authority to protect the public's interest in the responsible operation of nonprofit community-service organizations.

The savings in time for record-keeping and tax-return preparation for organizations eligible to file the Form 990-new would, also, be substantial. With the exception of the final question about the proportion of support received in relatively small amounts, these data fields will not require any filing-related specific record keeping. In addition to the streamlined reporting required in the 990-neo itself, eligible nonprofits would not be required to file the Schedule A which is currently required of all Form 990 filers except those eligible to use Form 990-N. Schedule A is used to calculate the public support test and thereby demonstrate continued eligibility for treatment as a public charity (and avoid the more restrictive obligations applicable to private foundations). The financial information reported on the 990-neo and the certification that a majority of the filing organization’s revenue is from small gifts and grants serves the same purpose (Horne 2017).

In the normal course of events, an organization that fits our definition of a “classic” nonprofit is likely to be able to gather the necessary information in an hour or so of consultation among employees and submit it to the IRS using a now-familiar sort of online form. In contrast, the published instructions from the IRS for completing the Form 990 estimate that filing a 990-EZ will require 45 h and $500 in out-of-pocket expenses resulting in an “average total monetized burden” of $1200 for the filing organizations (Treasury 2019a, p. 52). Given that there are approximately 170,000 990-EZ filers, this estimate of the “monetized burden” suggests that approximately $204 million annually is diverted from support for these organizations’ missions each year.[7]

2.3 Focus IRS Resources on the Largest Exempt Entities

While simplified processing of information about “classic” organizations at the Tax-Exempt and Government Entities Division of the IRS would offer some opportunity to realign resources within the division to allow more scrutiny of complex organizations, further attention by Congress to that challenge would be welcome. Thus, we recommend that the Joint Committee on Taxation request a study by the Congressional Research Service of the Library of Congress of the additional resources, both financial and professional, that would be required if the IRS were to focus new attention on the approximately 17,000 organizations with annual revenues of $10 million and more (McKeever 2018 at Figure 1). By concentrating on the understanding of these large and often complex organizations, the IRS could extend its capacity to identify and curtail abuse of nonprofit status by opportunistic – or simply corrupt – enterprises. Opportunistic or corrupt nonprofit organizations are admittedly relatively few; nonetheless, the goal of

7 IRS Form 990-EZ is four pages long. The Schedule A requires eight pages, only some of which are used by each filing organization: the information provided on the first page directs the filer to another area of the form where all or part of another page must be completed. The Instructions for the 990-EZ fill 48 pages and for the Schedule A, another 19. Access to IRS forms and instructions is provided by the IRS at https://www.irs.gov/forms-instructions.

preserving the integrity and reputation of America's nonprofits by preventing those few corrupt ones from operating is critical to the overall health and trust in the nonprofit sector.[8]

One contemporary example of the complicated challenges facing state regulators and the IRS in its exemption-granting role is the rapid growth of health care sharing organizations. These nonprofits often operate under a religious banner and seek to enroll families seeking relief from high insurance premiums and health-care costs by creating a large cooperative network where the contributions of many participants are used to cover the medical bills of the smaller number of people who incur costs. As reported in the *New York Times* and elsewhere, health care sharing organizations may be mistaken for insurance providers by participants even though they do not guarantee payment for every medical expense (Abelson 2020). In August of 2019, the Washington Insurance Commissioner fined one such organization $150,000 and ordered it to stop offering its program in Washington state (Washington Insurance Commissioner 2019a, 2019b). (The federal law which permits health care sharing organizations requires them to have been operating since 1999; this organization was formed as a 501(c)(3) public charity in 2018.) Because this organization is based in Atlanta, Georgia, and has operated nationwide, it is likely that it continues to offer the appearance of protection against high medical bills broadly in other parts of the United States.

2.4 Align IRS Data Collection and Publication with a Broad Range of Policy Goals

Overall, the oversight of nonprofit organizations in the United States is the responsibility of many separately authorized authorities. State government officials have common-law and statutory responsibility for many aspects of nonprofits' operations – principally fundraising and protection of charitable assets. At the federal level, the IRS oversees compliance with the requirements for tax exemption; the Federal Trade Commission has responsibility for deceptive advertising by commercial fundraising contractors; and numerous registration and licensing requirements for health-care providers, public broadcasting operations, and other specialized activities exist. In addition, many federal grant programs support significant nonprofit activities – scientific, educational, cultural, and professional – and include operating standards in their grant guidelines and proposal reviews. The data currently collected by the IRS – the single national source of

8 The authors are grateful to Gary Bass for steering us toward this suggestion after reviewing an earlier draft of this paper.

information about charitable organizations – is seldom reviewed after it has been filed.[9] This fact alone might be seen as a strong argument in favor of reducing the burdens on filing organizations and relying on other methods of identifying problematic exempt organizations. In any case, the resulting published data offer scant support for the design of the forms and procedures that underlie the many contacts and connections between government agencies and nonprofit organizations of every size and description. A study of the full range of data needs of state and local regulators, foundations and corporate supporters, donors (large and small), journalists, and scholars would, we believe, lead to changes in the design of all versions of the IRS Forms 990, thus improving the usefulness of the data collected. Further refinements of its presentation and use could possibly offer streamlining of applications for governmental and foundation support as well as supporting improved understanding of many public-policy and welfare considerations. Along with other benefits for communities and beneficiaries of philanthropic and governmental programs, the result would be to strengthen the reporting by nonprofit organizations and in the long run enhance the public understanding of the nonprofit sector and its importance to American life.

3 Discussion

Generalizations about the role of nonprofits in the United States often quote from a well-known passage from *Democracy in America* by Alexis de Tocqueville. “Americans of all ages, all conditions, all minds,” he wrote, “constantly unite. … they have commercial and industrial associations in which all take part, but they also have … associations to give fêtes, to found seminaries, to build inns, to raise churches, to distribute books, to send missionaries to the antipodes; in this manner they create hospitals, prisons, schools” (Tocqueville 1835, vol. 2, ch. 5. 2012 ed.). A scholar seeking to ascertain the extent to which this generalization is still true a couple of centuries after Tocqueville’s visits to the North American continent would quickly discover the limitations in the official statistics that might inform their assessment of the nonprofit sector in the US. The federal government’s attention to nonprofits generally is, of course, located in the Internal Revenue

9 The IRS webpage entitled “Enforcing Laws” – https://www.irs.gov/statistics/irs-enforcing-laws – contains summary reports of examinations of tax-exempt organizations for several years up to and including 2005. The report for that year shows that examinations were performed for about 0.6% of the total number of forms filed (4328 of 849,342); it is possible to infer that some of these were large and complex entities from the report that the average additional tax per return was $56, 408 for the 625 complex organizations examined and $3079 for the 4328 other organizations examined. (These figures are found in Table 14 at https://www.irs.gov/pub/irs-soi/05db14eo.xls.)

Service. The national data collected and published by the IRS is related to the special tax treatment of several types of nonprofits some of which accord, more or less, with Tocqueville's observation. The focus of the information collected and published, though, is on the financial affairs and, to a limited extent, engagement in political activities of exempt organizations of every size and character.

Organizations which operate within the tradition identified by Tocqueville during his travels in the newly organized United States continue to exist to this day, of course. As demonstrated in Appendix A, current IRS data are not well-suited to identifying organizations that operate as the community-based associations noted by Tocqueville. This lack of data weakens both the management of such organizations and the public's understanding of the many roles of small-scale charitable organizations in American communities. It is, indeed, a good example of what Anheier and Toepler (2019) have recently described in an article titled "Policy Neglect: The True Challenge to the Nonprofit Sector."

Importantly, then, organizations eligible to be identified as "classic" in the terms suggested in this article would be similar to the small, local, and voluntarily led groups so crucial to local communities.[10] The creation of the "classic" category would lead to the simplification of record keeping for eligible organizations; the streamlining of the responsibilities of the IRS for oversight; the additional clarity about the activities of the organizations themselves; and the enhanced ability of stakeholders and local authorities to hold them accountable. In addition to these benefits, the creation of this category would facilitate greater visibility and attention to the sorts of organizations that have been a distinctive characteristic of American culture for centuries (Bremner 1988). Indeed, the relative invisibility of organizations with these "classic" characteristics encourages the cynicism about nonprofit status which surfaces from time to time when public attention is drawn to real or imagined failings of organizations that are large enough and significant enough to attract media attention.

Another suggestion, growing out of our experience in preparing these policy proposals, focuses on the data currently available about America's nonprofit organizations. In Appendix A, we present observations on the analysis necessary to secure approximations of the effect on the number of organizations that might be eligible to file the new, and simplified, reports we envisage for "classic" public charities. One conclusion to draw from this attempt to use widely available data to refine a policy proposal is the inadequacy of the currently available data. This situation is not surprising, given the IRS's focus on tax-collection and regulatory compliance. The advances in technologies for data collection and processing in

10 *Bowling Alone* by Robert Putnam (2000) documents the fading salience of small and local associations in American life.

recent years suggest, however, that the well-developed processes for reporting to the IRS by nonprofit organizations might be extended to include more policy relevant information at little cost to either reporting organizations or the government. Consequently, we recommend that members of Congress with an interest in the scope and effectiveness of nonprofit organizations across the country should request that the Congressional Research Service undertake a study of the data needs of policymakers at the state and federal levels, researchers, and local nonprofit leaders and volunteers in order to improve the utility, responsiveness, and accuracy of IRS forms and data collection practices.[11] Some of the responsibilities implied by the results might require amendments to the Internal Revenue Code, others might be achievable within the current authority given to the IRS by existing law. The report should, at the same time, include an estimate of the additional expenses, if any, the IRS would incur by the addition of the new data collection and reporting responsibilities.

The involvement of millions of Americans – donors, volunteers, patrons, and beneficiaries – in nonprofits’ services means that policymakers have an obligation that related policies and administrative procedures should be well-designed and well-understood. The data currently available go only a short part of the way toward achieving that goal. Improvement would support the development of clearer and more effective policies and, importantly, greater understanding of the contributions of the tens of thousands of community-based nonprofit organizations and their staff and volunteers to health, safety, and cultural vitality in every part of the nation.

4 Conclusion

In this paper, we have outlined four practical steps which the federal government could implement to improve the operations of nonprofit organizations by:

- Simplifying the federal reporting requirements that apply to small organizations;
- Reducing thereby the costs incurred by them in completing IRS forms;

11 In a 2019 report to Congress an independent organization within the IRS called the Taxpayer Advocate Service reported that nearly 50% of Form 1023-EZ filings in recent years have failed to demonstrate that the filing organization meets the qualifications for 501(c)(3) status (Treasury 2019b). This finding strongly suggests that a study of the data needs of policy makers along the lines suggested in the text should also include a detailed inquiry into possible improvements in the design of Form 990-EZ and in the procedures for review of new applications for recognition as tax-exempt organizations using the form.

- Increasing the oversight of very large and complex tax-exempt organizations; and
- Improving the data-collection requirements of and related publication of data by the Internal Revenue Service in order to align these efforts more closely with the needs of policy-makers, philanthropies, researchers, and local communities.

Adopting a simplification in registration and reporting standards would significantly reduce burdens on small and local nonprofit organizations while enhancing the ability of the Internal Revenue Service to focus attention on large and complex nonprofit enterprises. Adding to the resources of the IRS while requiring greater attention to the large organizations with significant economic power and programmatic reach would reduce the likelihood that misbehaving organizations could continue to divert resources from worthy causes and the related risk to public confidence in America's critical nonprofits and their work. And, finally, realigning the data collection and publication activities of the IRS so as to continue its attention to the enforcement of the tax laws while simultaneously providing a more robust range of information about the operations of nonprofits would improve the quality of research on nonprofits and the development of appropriate laws and regulations affecting their operations.

Appendix A

A note on the availability of data to estimate number of filers eligible for "classic" status[12]

Estimating the number of 990-EZ filers who would be eligible to file as "classic" public charities is difficult because of the lack of relevant data on the 990-EZ form; the 990-EZ form does not contain the data needed to estimate the number of filers who meet each of our proposed criteria. Further, some information that is collected is not included in available data extracts for 990-EZ filers. In some of cases, it is possible to use data from the national sample of EZ filers published by IRS' Statistics of Income division to estimate the number of EZ filers who meet these criteria. However, data for many of these variables are not even available on the full 990 form, which makes it impossible to rely upon any available data to

12 The authors greatly appreciate the valuable assistance of Nathan Dietz of the Do Good Institute at the University of Maryland and the Urban Institute for his insights and feedback on the instructions and data fields of the IRS 990.

determine the size of the population of potentially eligible “classic” public charities. The following paragraphs describe some possible methods for estimating the number of EZ filers who would be ineligible for “classic” status as a result of the criteria for eligibility the paper suggests.

– Less than a small threshold number of paid staff – perhaps as few as 20.

The Form 990-EZ does not collect information on the number of employees. To estimate the number of 990-EZ filers with twenty paid staff or less, one strategy would be to extract data from Part V, line 2a of Form 990 in the Statistics of Income (SOI) national sample for just those full 990 filers who meet the EZ criteria – i.e., gross receipts of less than $200,000 and total assets of less than $500,000 at the end of their tax year – then multiply the actual number of EZ filers by the percentage of such organizations that have 20 or fewer paid staff.

– Less than three contracts for services (other than those for legal advice and accounting).

Part VI, line 51 of Form 990-EZ asks the organization to list “independent contractors that received more than $100,000 in compensation for services, whether professional services or other services, from the organization.” The SOI national sample for 990-EZ filers can be used to estimate the percentage of EZ filers that have three or more highly-paid contracts; we can multiply the total number of EZ filers by this percentage to estimate the number of organizations with less than three contracts. Although the SOI national sample dataset contains more detailed information about the five highest-paid contractors, information about the actual services provided by the contractors is hard to extract from the dataset. It might be possible to perform textual analysis to eliminate the contracts for legal advice and accounting from the total number of contracts managed by each organization, but that would be a much more involved project.

– No wholly owned subsidiaries.

Part V, line 45A of form 990-EZ asks filers to check a box if they have a "controlled entity within the meaning of section 512(b)(13). “However, only some controlled entities are wholly owned subsidiaries; Schedule R allows filers of Form 990 to report details about whether a controlled entity is a wholly owned subsidiary, but filers of Form 990-EZ are not required to complete Schedule R. (An organization that checks the box on Part V, line 45b of Form 990-EZ, but which otherwise meets the criteria for filing Form 990-EZ, may be required to file a complete 990 in addition to Schedule R.)

– No franchising agreements.

According to the instructions for Form 990-EZ, organizations that are listed as the central or parent organizations in an IRS-issued group exemption letter must file Form 990. However, organizations that are affiliates within an existing group arrangement must list the group exemption number (GEN) in the header of Form 990-EZ. The SOI national sample for Form 990-EZ can be used to estimate the percentage of EZ filers that have GENs listed on their forms, and therefore are part of exempt groups. Whether the relationships among the members of such groups can be described as “franchising” cannot, though, be determined.

- No intellectual property licensing; The SOI national sample for filers of Form 990 who meet the size criteria for Form 990-EZ will give us an estimated percentage of the number of EZ filers who report royalty income (Part VII, line 5). We can then multiply the actual number of EZ filers by this percentage, while noting an important caveat: not all royalty income comes from intellectual property rights.
- At most one fund-raising support organization or auxiliary.

Both the 990-EZ and the full 990 form make it hard to get data on wholly owned subsidiaries. Schedule A (which all EZ-filing public charities need to fill out, to prove that they meet the public support test) asks about how the filer manages its supporting organizations, and about the governance structure of the supporting organizations, but not about what the supporting organizations do. Part V, line 41 of Form 990-EZ does ask the filer to report the number of states where a copy of Form 990-EZ is filed. Some states require organizations that raise funds from residents to file copies of their federal tax returns under charitable solicitations rules and a filer who lists a large number of states may use multiple fundraising firms when seeking support.

- Supported locally and primarily by individual donors.

We can use the 990-EZ data extracts to estimate the percentage of total support coming from gifts and grants for all EZ filers, regardless of the reason for being a public charity. We can calculate this percentage for 141,330 public charities (84% of the number of EZ filers); the balance of the organizations have missing data and most of those have no data for Part I of Schedule A (where organizations are asked to check a box to indicate which provision of the Internal Revenue Code is the basis for their tax-exempt status).

Over 40% of EZ filers have 100% of their support coming from gifts and grants, and nearly 60% have over 90% from these sources. It might be reasonable to assume that organizations with large amounts of money from other sources are not “primarily supported locally and primarily by individual donors,” but no information is available to confirm that inference – there are no data on IRS forms that indicate exactly how many donors an organization has or that break out revenues by source in more detail than responses to this question. (This problem is not restricted to EZ filers; such data are also not available on the full 990.)

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