

RESEARCH NOTE

“PHILANTHROPY,” “NONPROFITS,” AND THE IRS MASTER DATA FILE FOR MASSACHUSETTS

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A fundamental issue in contemporary philanthropic and nonprofit studies is the need for clarity, precision, and consensus on the meanings of two basic words and concepts we all use daily, and on which the validity of our scholarship and the productivity of our practice depend: “philanthropy” and “nonprofit.” Scholars and professionals customarily use these words interchangeably, as if they were synonyms. The IRS Master Data File on “nonprofits,” however, shows that not only are the two terms far from synonymous, but that outside the tax code (and state laws of incorporation, which relate to the tax code) they have nothing significant in common. Philanthropy is currently undergoing a classic paradigm-shift; this discovery should facilitate that process and help build the new, twenty-first century paradigm in philanthropy.

Internet and computer technology enables, and is pressing, philanthropic data to become systematic, universally accessible, and transparent. Since 1997, *The Catalogue for Philanthropy* has been studying and clarifying philanthropy for donor education, more influential professional scholarship, and both professional and amateur practice. In 2011, a grant from the Fund for New Philanthropy Studies at DonorsTrust helped us deepen our analysis of the IRS Master Data File for Massachusetts, and to develop a typology of non-philanthropic nonprofits which would clarify their differences from philanthropy—“private initiatives, for public good, focusing on quality of life, and engaging in public fundraising”—i.e., the

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philanthropic marketplace of private grants and donations. This research note reports on the background and findings of our work, still in progress.

Advancing Philanthropy through Transparent Data

The *Catalogue for Philanthropy* was launched in 1997 as part of a donor education initiative by a consortium of twenty foundations seeking to increase and improve charitable giving in Massachusetts. The *Catalogue* annually provided articles on philanthropy in general, reinforced by profiles of small to mid-sized charities exemplifying philanthropic excellence. This strategy produced, in eleven years, the most detailed and thorough portrait, analysis, and advocacy of philanthropy in a major philanthropic market (more than 900 charities listed), ever published. It also set a practical record of increasing charitable giving—in only four years, 1997-2000, the *Catalogue* initiative evoked a *doubling* of Massachusetts' giving, from \$2 billion to \$4 billion. (The increase was interrupted in 2001 by September 11th and economic recession, then resumed several years later. Giving nationwide also increased in those first years—income up by 39 percent, giving by 62 percent; in Massachusetts, income also up by 39 percent, but giving rose by 98 percent; the next-closest state's increase was well behind, at 80 percent. The Massachusetts increase was effected by the top income group of 250,000 taxpayers, which was the *Catalogue's* target audience; their share of total giving increased from 51 percent, which is why they were targeted, to 74 percent).

Along the way, our processes of charities selection and public presentation encouraged us to develop a new donor-friendly taxonomy of philanthropic fields and their charitable organizations. We first considered using the conventional National Taxonomy of Exempt Entities (NTEE), but found it counter-productive. It is not systematic (thus not a taxonomy in the scientific sense)—its ten basic fields bear no logical or ontological relations to each other and are not logically elaborated. Its vocabulary is idiosyncratic and thus awkward for donor education (it was not designed for donors), and its internal inconsistencies render it useless for systematic or statistical data collection and analyses. We therefore decided to create our own systematic taxonomy, which has developed over the years as it grew to handle thousands of charities, into more than two hundred distinct fields in four fundamental areas, covering all possible human relationships: Nature (our relations with the physical environment), Culture (our relations with what humans have created), People (our relations with each other), and “Promoting Philanthropy” (all of the above).

In 2005, as the *Catalogue* approached its tenth anniversary, we wanted to measure our coverage of Massachusetts philanthropy. We had at that point listed 600 charities, in all fields, all across the state, but we had no idea how adequately that represented the total number eligible (in all fields, with budgets below \$3 million) or the totals in each field, or the distribution of charities among fields. These elementary numbers simply did not exist—neither academia, nor philanthropic professionals, nor the government, had ever attempted to compile them (indicating that the NTEE did not encourage such compilation). Thus for practical purposes, more than scholarly reasons, we consulted the IRS Master File Data for Massachusetts nonprofits, which lists them all and was by then freely downloadable from the Internet.

We were astonished to discover that on any page of the IRS spreadsheet so few “nonprofits” had anything to do with actual philanthropy as we had learned that it exists. Armed with a clear definition—“private initiatives, for public good, focusing on quality of life, and (for charities as distinct from foundations) engaged in public fundraising”—which we had tested and validated in ten years’ experience with thousands of charities, we could easily exclude large groups of obviously non-philanthropic nonprofits—organizations that comprise much of so-called “civil society,” and are in the public interest to exist (thus their privilege of tax exemption), but which are basically self-serving, self-supporting, or government-supported institutions—e.g., professional, trade, alumni and condo associations; credit unions and teachers’ retirement funds; real-estate trusts; social, athletic, country, and yacht clubs; cemeteries; etc.

Of the more than 40,000 Massachusetts nonprofits, 75 percent are non-philanthropic, having little interest in, nor interest to, the donating public. Private foundations are philanthropic but do not fundraise from the public; churches are by law considered in the public interest to exist, and are often philanthropic for their members and others, but they primarily serve and are supported by their members, and do not seek grants and donations from the general public. In short, “nonprofit” status is an artifact of the tax code, and does not signify interest to donors and grant makers in general.

Of the remaining 25 percent of registered nonprofit organizations, approximately 15 percent—more than half—are what we have called “para-philanthropic”—in a zone graduating the transition between clearly non-philanthropic and clearly philanthropic. This is especially true at the local level, where private and public interest are blurred and sometimes blended. They

include Little League teams, PTAs, various clubs, local land trusts, some churches, and the like. This group needs detailed scrutiny and discussion by scholars and professionals; for our purposes we examined them one by one, eventually pruning the list to approximately four thousand *bona fide* charities, in all fields, of potential philanthropic interest to donors and grant-makers. In sum, we found that in Massachusetts—a large state with a mature philanthropic community which we have no reason to believe is exceptional—only about 10 percent of the total number of nonprofits is straightforwardly and undeniably participating in philanthropy, defined as “private initiatives, for public good, focusing on quality of life, and engaged in public fundraising.”

We concluded from this research that philanthropic and nonprofit scholarship and practice have fundamental problems of terminology, and thus of empirical accuracy, clarity and simplicity. To the *Catalogue* it meant that, working with this much smaller number, and with our systematic taxonomy and Internet technology, we could compile for the first time anywhere a purportedly complete, systematic, analytical, on-line directory of *all* the charities in a single major market (Massachusetts), providing information of interest to donors from the charities’ IRS 990s and websites, and leading donors to those websites as in the long run the best source for up-to-date data and display of the charities’ styles and values, with contact links for practical connections. This would be the first system opening all of philanthropy to the public—making the whole and all of its parts visible, understandable, and accessible for everyone—powerfully conducive to increased charitable giving.

Specifically, for Massachusetts as our research and development laboratory, we could readily sort the four thousand philanthropic charities into our two hundred philanthropic fields; from their IRS 990s we could additionally record their revenue sizes, dates of IRS authorization (indicating institutional maturity), and geographic locations (for digital mapping). From their websites we could glean program summaries and demographics of people served. These could then—for the first time—constitute parameters for *systematic* searches and analyses of groups as well as individuals. With interactive Web 2.0 technology, users—from beginners to professional experts—could combine these parameters, and specified ranges within them, according to their interests and purposes, for unprecedentedly powerful, advanced, thorough, searching, data-gathering, and analyses, accomplishing in minutes what had previously taken weeks. When donors found the charities they wanted, contact information would lead them to personal

contact, for giving and volunteering. Thus was conceived in 2006 the *Massachusetts Philanthropic Directory (MPD)*, which we launched as a prototype in 2011 (patent pending, for quality control; sharing for free).

Strengthening the Culture of Philanthropy

As noted above, the data show that roughly 75 percent of nonprofits are obviously not philanthropic. Although the existence of most of them is probably in the public interest, and many do good works, and almost all are “private initiatives” “focusing on quality of life,” we found that their clearest empirical disqualifier from philanthropy—i.e., from donors’ and grant-makers’ interests—is simply that they themselves show no interest, in their 990s and on their websites, in seeking grants and donations from the general public—which is to say, the philanthropic market.

Why not? Especially when many 501(c)3 public charities—approximately 28,000 in Massachusetts—are authorized by the IRS to raise tax-deductible contributions from the public? The answer is that they don’t need it—they are self-supporting without broader philanthropic support. Just as the public and most professionals mistakenly believe the word “nonprofit” to be synonymous with philanthropy, so also is it incorrect to believe it means financial dependency on the public.

Many have said, for decades, that using a negative word to describe a positive thing is not attractive and confusing to donors, as well as linguistically imprecise and stupid—like calling dogs “non-cats.” To these sound but evidently unpersuasive arguments we can now add that it is also factually incorrect, and statistically misleading—exaggerating our numbers tenfold. Moreover, because “nonprofits” upon examination are so heterogeneous, they have nothing in common except their tax classification and related state laws of incorporation, so the word turns out to be meaningless apart from the tax-code, with no practical utility. Scholars and professionals need now to stop and think about that, to look at the evidence, and to make their own informed decisions.

In the sharpest contrast, the idea of “philanthropy”—the “love of what it is to be human”—is one of the most powerful and profound ideas in the history of Western thought, the core of a rich philosophical, educational, and moral tradition, rooted in classical antiquity and central to the great cultures of Periclean Athens, Republican Rome, the Renaissance, and the Enlightenment. It explicitly informed the birth of our own nation from the Colonial period through the Revolution and the Constitution. From its coinage in *Prometheus Bound* (line 11), it was associated “with **freedom**

against slavery, **democracy** against tyranny; **civilization** against wildness or barbarism; with **education** as self-development and empowerment; with **optimism** and **progress** in history; and finally with the sense that these are all mutually interdependent and reinforcing....” (McCully 2008, 12, emphasis in original).

The term “nonprofit” emerged around the turn of the twentieth century, with little influence until it entered social science scholarship in the ‘60s, and increasingly thereafter became associated with the so-called “third sector” (neither government nor business), even being taken as synonymous with “civil society.” That is not a problem for the *Catalogue*, except when it is confused with philanthropy. Our institutional mission is “to strengthen the culture of philanthropy”; therefore we oppose confusing influences, which we have found from donors and charities alike is diluting, enervating, and inhibiting.

To help clarify the vocabulary and dispel the conceptual fog in the philanthropic world, and as we were working with the data anyway for our own purposes, we developed for colleagues in other fields, and attempted roughly and tentatively to quantify, a typology of the much larger and more varied world of nonprofits. As a practical matter, we believe that the best prioritizing strategy for *philanthropic* studies is to focus on and learn what we can from the philanthropic 10 percent of nonprofit entities, the indisputable hard core of philanthropy—a very substantial body of perhaps 200,000 institutions nationwide, about which as a group almost nothing is known because they have been carelessly submerged in and confused with the overall nonprofit population.

By suggesting what kinds of non-philanthropic institutions inhabit the so-called nonprofit sector, we hope also to clarify *why* they can no longer be considered philanthropic. We do NOT consider this basic distinction between philanthropic and non-philanthropic institutions as in any way an invidious value judgment. There is nothing wrong with non-philanthropic nonprofits as a group; most of them can be construed to be in the public interest, meriting the privilege of tax exemption. Finally, we invite empirical correction—our goal is consensus terminology.

A Preliminary Typology of Non-Philanthropic Nonprofits, Based on Sources of Revenue

We have found that as a practical matter there is a close correlation between sources of revenue and the characters of organizations, which may seem obvious but has not yielded rigorous typology.

Apparently close to, but not quite, philanthropy

Some institutions give every appearance of being philanthropic, except that they are not engaged in the philanthropic marketplace of public fundraising for grants and donations—on their 990s they either leave that revenue space blank or insert a zero, and their websites, if such they have, show no interest in it (as does not having a website). This constitutes a surprisingly large number of institutions—in Massachusetts more than 8,000, or 20 percent of all nonprofits, fully twice as many as those entities reporting revenue from grants and donations. These organizations show no signs of trying and failing to raise funds. They could be entirely volunteer organizations, with no paid staff or overhead expenses (and no mention of volunteers on their websites?), in which case we would list them as philanthropic. It is conceivable that the people behind these organizations just don't know how to fill out 990s correctly or have useful websites, and if so, the recently simplified forms may help solve that problem. It is also possible that many of these entities are defunct (though still submitting 990s?); time will tell about that as well. Our methodology requires conclusive evidence of market participation for an institution to be classified as philanthropic. We cordially invite them to provide such evidence, but until then we have taken the conservative course of not including them in philanthropy. Our database should be concretely and definitively positive.

In the public interest, but about themselves

Next closest to philanthropy are nonprofit organizations that do not address the general public but instead have so narrow, and often local, a focus as to suggest that they are basically self-serving. In Massachusetts and probably everywhere, there are many of these—13 percent of all nonprofits in the Bay State. These include Little League and other local community or school athletic teams, parent-teacher associations, small libraries or land trusts, and the like. They are private initiatives, and they do report some revenue from donations and even grants, but it is not clear that they or their grants and donations serve a *public* good—their fundraising appeals are largely to their members' self-interests; they do not fundraise from the general public, but from relatives, local businesses, and other interested parties. Here, too, we have taken the conservative position that to classify any of them as philanthropic requires stronger evidence of public benefit, on a case-by-case basis in which the size and scope of the public benefit beyond themselves will be determinative.

Self-supporting, self-serving organizations

Still further removed from philanthropy as ordinarily conceived is the largest single cohort—54 percent, more than half of all nonprofits—which are entirely self-supporting from revenue sources within their own organizations, neither seeking nor depending at all on any grants or donations from the outside public. They do not participate in the philanthropic marketplace. They are independent, self-supporting trusts or endowments, or membership organizations supported by dues and contributions of members only (such as social, country, and yacht clubs; condo, professional, and trade associations; alumni organizations, churches, etc.), serving primarily to benefit their own members rather than a broader public. It is common for such organizations not to have websites, and for their principal beneficiaries to be themselves, directly or indirectly. Claims to be serving public good are often unclear or secondary to their members' benefits. Whether individual institutions should be considered philanthropic is of course subject to correction on the basis of evidence, which we cordially invite. Our goal is a consensus list.

A special word is in order here about foundations. Community foundations are certainly philanthropic: they exist to promote philanthropy, at the interface between the donating public and the charities within their service areas and sometimes beyond (as in international philanthropy). They engage in public fundraising and so meet every criterion of “philanthropy.” Most private foundations, on the other hand, do not invite public participation, and yet are entirely devoted to philanthropic activity, whether operating or grant-making—thus they are self-supporting but *not* self-serving. Because they are not of interest to donors, they have not been, but probably will be, included in the Massachusetts' and other states' *Philanthropic Directories*; they are included in our system's homepage for all of philanthropy in each state—in Massachusetts, *MassPhilanthropy*.

Quasi-governmental, quasi-commercial corporations

In numbers of organizations a surprisingly small percentage—3.5 percent—but in dollars a predictably very large percentage, is a group that resembles either business or government more than philanthropy. Some of these organizations support themselves entirely through earned income—as is the case of “nonprofit businesses” (as they style themselves) such as Blue Cross/Blue Shield in Massachusetts. Within this group, 0.3 percent are entirely dependent on government funding—in effect, they are quasi-government agencies. A single

nonprofit in Massachusetts reports annual revenue of \$1.4 *billion*, which it receives from a single government source—the National Security Agency; it has a noticeably large number of senior staff earning six- and seven-figure salaries. Another 0.3 percent of nonprofits are funded by a mixture of revenue sources—earned income, government grants and contracts—but *not* public fundraising of grants and donations. These can be very large institutions such as hospitals, with large revenues and assets. Clinical practices of physicians associated with hospitals are often incorporated as nonprofit and tax-exempt, with very highly paid staff who are not considered shareholders.

Conclusion

To our knowledge, the nonprofit dataset has not previously been described nor typologized in such detail by sources of income. Nonetheless, this data illuminates the nonprofit sector—its structure, operations, issues, and interests, especially in relation to government and the for-profit economy, as well as for refined concepts of civil society or the social sector.

The non-philanthropic nonprofit sector is by far the dominant cohort—quite varied but clearly distinguishable from the philanthropic nonprofits strictly construed, by reference to their disinterest in philanthropy and their viability from non-philanthropic sources of revenue. These organizations are in no way dependent on the public, nor competing with philanthropies for philanthropic fundraising dollars.

There are a few more lessons here. The sheer variety of nonprofits reveals that *tax-exemption*—through the federal tax code and state laws of incorporation subordinate to the tax code—*is the only feature these entities have in common*. To test this conclusion, we asked the nearly 1,400 subscribers to the ARNOVA List-Serve to suggest any other common trait, and none has emerged. If there is none, it means that common expressions such as “nonprofit management” are meaningless without further qualification—for example, by referring to specified cohorts, such as philanthropies, cemeteries, country clubs, real estate trusts, condo associations, teachers’ retirement funds, black lung associations, trade unions, professional associations, etc.

Moreover, the federal tax-exempt classification system seems to us to need thorough review by the IRS and Congress. It is clearly a product of politics over decades, arising from conditions that may no longer apply in all cases. There may even be appreciable federal and state tax revenues to be gained by eliminating

obsolete or inappropriate tax exemptions—especially useful today. We have found many cases in which the tax exemption’s prohibition against distributing surplus revenues (profits) to private shareholders has been used to justify distributing those surpluses instead to top executives in the form of large compensation packages—six- and seven-figure salaries and other bonuses. In short, *the tax-exempt nonprofit classification structure seems to need thorough review*.

Furthermore, the meaning of the word *nonprofit* itself should be reconsidered, because times have changed and some current conditions were not foreseen by the tax code. To take only one outstanding example: when institutions with billion-dollar endowments earn annually in their investment yields more than they can possibly spend on their charitable purpose and institutional development (including hyper-compensations), or raise from philanthropic fundraising, and are prohibited from distributions to private shareholders, their only recourse is to plow the surplus back into the ballooning endowment, in an endless upward-spiraling, positive-feedback loop. If their public tax-deductible fundraising is no longer necessary, should such institutions remain tax-exempt and continue siphoning off from other beneficiaries philanthropic dollars that might truly “make a difference”? To designate as “nonprofits” such highly profitable (in ordinary parlance) institutions, such as many of our nation’s “private” universities, is an obvious mislocution. Sustaining tax-exemption for these entities poses lost opportunities for local, state, and federal tax revenues and is an embarrassment to authentic philanthropy. What these institutions have become is hugely profitable businesses that mix public and private interests and benefits.

Finally, from a practitioner’s standpoint this subject of nomenclature is not only a matter of academic importance which one may decide to accept or not in one’s own scholarly work. Imprecise and unvalidated language in philanthropic and nonprofit studies does undermine respect for that scholarship, and has produced public confusion and negative impressions of philanthropy, which have seriously crippled charitable giving and thus our nation’s quality of life. This is a matter of public urgency, as it diminishes our common weal as a nation and our standing in the world. We all—scholars and practitioners—have a serious teaching responsibility and job to do. Please join those of us in the field who are working to increase charitable giving and philanthropy as a quintessentially American lifestyle.

REFERENCES

McCully, George. 2008. *Philanthropy Reconsidered—Private Initiatives, Public Good, Quality of Life, A Catalogue for Philanthropy Publication*. Indianapolis: AuthorHouse.

SECTION TAX CODE	DESCRIPTION OF ORGANIZATION
501(c)(1)	Corporations Organized Under Act of Congress (including Federal Credit Unions)
501(c)(2)	Title Holding Corporations for Exempt Organizations
501(c)(3)	Public Charities and Private Foundations
501(c)(4)	Civic Leagues, Social Welfare Organizations, and Local Associations of Employees
501(c)(5)	Labor, Agricultural, and Horticultural Organizations
501(c)(6)	Business Leagues, Chambers of Commerce, Real Estate Boards, etc.
501(c)(7)	Social and Recreation Clubs
501(c)(8)	Fraternal Beneficiary Societies and Associations
501(c)(9)	Voluntary Employees' Beneficiary Associations
501(c)(10)	Domestic Fraternal Societies and Associations
501(c)(11)	Teachers' Retirement Fund Associations
501(c)(12)	Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, etc.
501(c)(13)	Cemetery Companies
501(c)(14)	State Chartered Credit Unions, Mutual Reserve Funds
501(c)(15)	Mutual Insurance Companies or Associations
501(c)(16)	Cooperative Organizations to Finance Crop Operations
501(c)(17)	Supplemental Unemployment Benefit Trusts
501(c)(18)	Employee Funded Pension Trusts (created before June 25, 1959)
501(c)(19)	Posts or Organizations of Past or Present Members of the Armed Forces
501(c)(20)	Group Legal Services Plan Organizations
501(c)(21)	Black Lung Benefit Trusts
501(c)(22)	Withdrawal Liability Payment Funds
501(c)(23)	Veterans Organizations (created before 1880)
501(c)(25)	Title Holding Corporations or Trusts with Multiple Parents
501(c)(26)	State-Sponsored Organizations Providing Health Coverage for High-Risk Individuals
501(c)(27)	State-Sponsored Workers' Compensation Reinsurance Organizations