

The Coming Revolution in the Charitable Sector (Part 1 of 2)

Part One: Nonprofits Go Public

C. Eugene Steuerle

"Economic Perspective" column reprinted with permission.

Copyright 1998 TAX ANALYSTS

Document date: August 10, 1998

Released online: August 10, 1998

The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

Surely, swiftly, yet without much fanfare, the technological age is about to lead to a remarkable revolution in the nonprofit sector. This revolution will soon lead to a markedly higher level of accountability by charities and other nonprofits, a vast expansion of public knowledge of their activities, a reorientation of IRS resources devoted to exempt organizations, and changes, which cannot yet be fully anticipated, in the performance of nonprofits and the extent of public support they receive. Only a minority of nonprofit organizations, however, are preparing for this coming transformation. What will be the cause of all this ferment? It is nothing less than the eventual fulfillment of the congressional requirement that the records of charities be open and accessible to the public. It will be led by the dramatic drop in cost of time and money that the inquirer must spend to obtain these records.

Historically, the legal mandate for access has been met only on occasion, and with much difficulty. It took much persistence for someone to gather information on a particular charity, even though the Forms 990 filed by charities (excluding churches and small nonprofit organizations) were required by law to be made available to someone who requested them. Adding teeth to this requirement, section 6104(e) requires exempt organizations to provide copies of the three most recent information returns within 30 days of a written request; it will apply 60 days after final regulations are issued.

Even then, there are problems. Until recently, details on a broader universe of nonprofit organizations could be obtained only with an extraordinary amount of effort, if at all.

Moreover, Tom Pollak of the National Center on Charitable Statistics, among others, has found that a very large percentage, perhaps a majority, have one type of reporting error or another (the exact percentage is harder to determine since IRS transcription errors are also present). Among the filing errors are not only inconsistent data, but many blank lines that in theory are legally required to be filled out by the charities, but are not.

Although a few nonprofits may actually be trying to hide information, what is likely is that for many smaller charities filling out this form involves real cost, and responding to requests for copies of it is often viewed as a special nuisance. Because charities are almost always lacking in volunteers and staff even to perform the basic functions to which they are committed, it is hard to get charity officials excited about meeting yet another bureaucratic requirement or passing on information to someone who may or may not be sympathetic to their mission.

Technology, however, marches onward and is quickly making obsolete information that must be passed on in paper form or in the mail. The multiplication of electronic information in almost every area of our lives is not going to confine itself to the business and household sectors, while bypassing the charitable sector.

Many private sector organizations and leaders have been anticipating and preparing for this revolution. The Nonprofit Accountability Collaborative, under the guidance of Bill Levis and Russy Sumariwalla, represents a cooperative venture engaging charitable umbrella groups and state attorneys general to make suggestions for improving the quality and effectiveness of the Forms 990. Among the many individuals and groups involved in this and other efforts are Sarah Melendez, Sandra Gray, and Matthew Hamill of Independent Sector; Ann Mitchell Sackey, Executive Director of the National Council of Nonprofit Associations; Peter Swords, President of the Nonprofit Coordinating Committee of New York, which leads an effort to expand and make much easier the electronic filing of Forms 990; the National Center for Charitable Statistics (NCCS) at the Urban Institute, which seeks to make Form 990 data available to researchers and others; and Arthur (Buzz) Schmidt, President of Philanthropic Research, Inc. and publisher of GuideStar (www.guidestar.org),

which provides a free, searchable database of charities' information. The NCCS and GuideStar are building an electronic database of all Form 990 information, and will be posting images of these documents on the Internet. Closely associated have been David Stevenson and others instrumental in developing a "taxonomy" (the National Taxonomy of Exempt Entities or NTEE) by which to classify nonprofits, much akin to the classification code used for industry. Following the vision many years ago of individuals such as Virginia Hodgkinson, now at Georgetown University, and Elizabeth Boris, now head of the Center on Nonprofits and Philanthropy at the Urban Institute, these activities have now moved into high gear. In the interest of self-disclosure, I am involved both with several of the organizations and activities through the Urban Institute. All of these efforts have required the leadership and cooperation of the IRS, in particular, its Exempt Organizations (EO) and Statistics of Income (SOI) divisions.

Although there remains some uncertainty with respect to timing, the handwriting is on the wall. The day is quickly coming when the Forms 990 filed by charities will be cleaned up to include valuable information on activities and made available to the public almost at the press of a button. Many steps and details remain to be determined. Classification remains an ongoing responsibility, the conversion of scanned pictures into electronic form requires much labor, data files on the population of filers still contain many errors, improvements in the form itself sometimes requires trade-offs between what is simple and what is informative, and electronic filing, which would dramatically reduce some sources of error, has yet to be implemented by the IRS. Each day, nonetheless, brings this world one step closer to realization.

[[Part 2](#)]

Other Publications by the Authors

- [C. Eugene Steuerle](#)

Usage and reprints: Most publications may be downloaded free of charge from the web site and may be used and copies made for research, academic, policy or other non-commercial purposes. Proper attribution is required. Posting UI research papers on other websites is permitted subject to prior approval from the Urban Institute—contact publicaffairs@urban.org.

If you are unable to access or print the PDF document please [contact us](#) or call the Publications Office at (202) 261-5687.

Disclaimer: *The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Copyright of the written materials contained within the Urban Institute website is owned or controlled by the Urban Institute.*

Source: The Urban Institute, © 2012 | <http://www.urban.org>