

# The Impact of the Great Recession on the Number of Charities

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## Summary

- According to IRS data on charities with \$50,000 or more in nonprofits fared somewhat worse during the recession-driven years of 2008–12 than during the previous four years (2004–08), but the difference was more modest than some had expected.
- Just 5 percent of charities (12,831 of about 254,500) reporting \$50,000 or more revenue in 2008 were gone by 2012, only slightly higher than the 4.3 percent “death” rate in the years leading up to the recession.
- Even as some groups died, other nonprofits formed, both during the recession period (49,968) and the previous period (70,486).
- During the recession period, 11.3 percent of organizations fell below the \$50,000 threshold, compared with 8.4 percent in the earlier period.
- Overall, taking births and deaths into account, the number of organizations with \$50,000 or more in revenue in 2012 (252,018) was only slightly lower than it was in 2008 (254,525).

## Focus on organizations with \$50,000 or more in gross receipts

We began our analysis with the group of all 501(c)(3) public charities that filed an IRS Form 990 or Form 990–EZ, and reported \$50,000 or more in gross receipts during the years 2004 and 2008. We pulled data for those organizations four years later to obtain closure numbers and other changes. The amount of \$50,000 is selected for the analysis because regulations in place from 2010 forward require charitable nonprofit organizations with gross receipts of at least \$50,000 to provide annual financial information to the IRS. We wanted to be sure that across the two periods, we were comparing organizations with similar characteristics. However, this restriction excludes more than half a million existing charities from the analysis.<sup>1</sup>

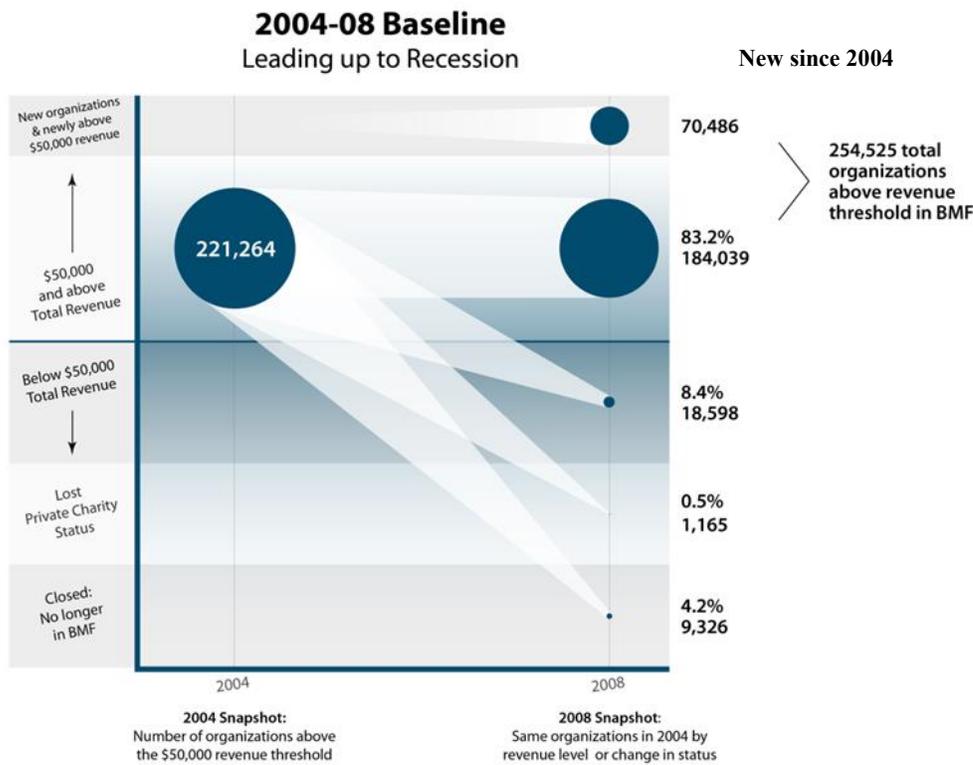
What does a public charity with more than \$50,000 look like? Fifty thousand dollars may cover a half-time or even a full-time staff person for a human service organization. Some of the largest parent-teacher associations (PTAs) in the country fall into this category, as do community theaters that are only able to pay professional actors in lead roles. The group contains a small number of large organizations, such as private hospitals and universities, with revenues in the billions of dollars, as well as a wide variety of much smaller organizations.

What do the organizations below the \$50,000 revenue threshold look like? These are volunteer-run mentoring programs, civic associations, community theaters, and a wide array of organizations, working in small communities, some with big ambitions but struggling to raise funds and expand, and others with modest agendas and ambitions. Some are active; others may have simply taken the few minutes it takes to complete their annual legal paperwork and hold brief board meetings but are, for the practical purposes of meeting their missions, inactive. Unfortunately, we cannot distinguish the vibrant from the practically inactive in this revenue category as no information about activities is collected by the IRS, so we are excluding this category from this analysis.

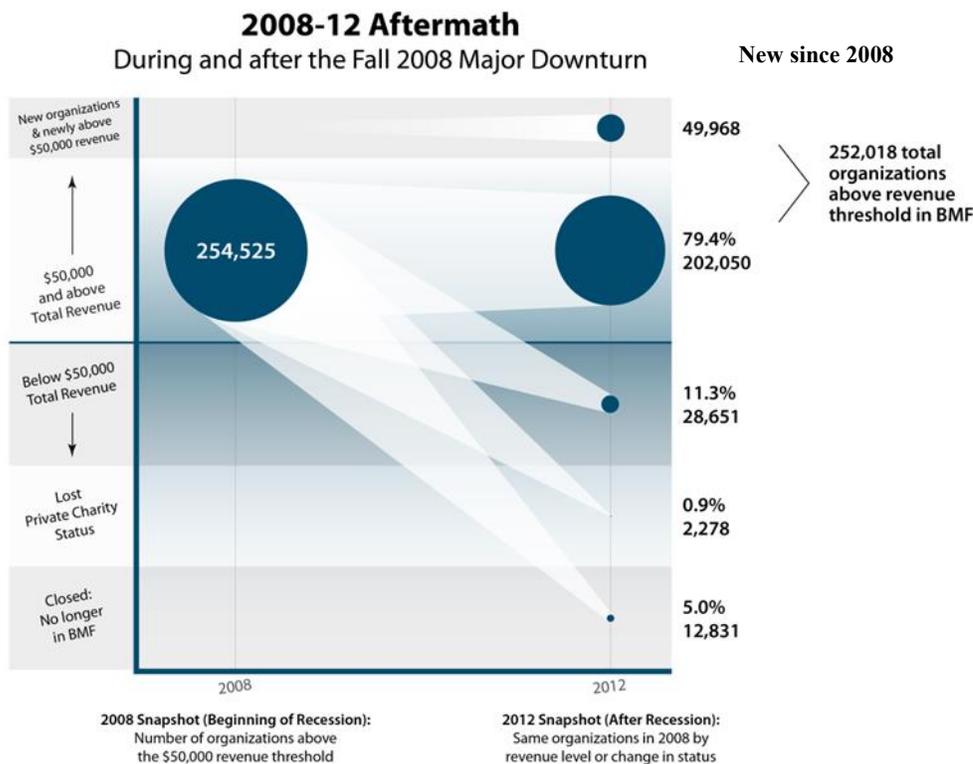
## Findings about the number of public charities above \$50,000 revenue

From 2004 to 2012, the total number of public charities with at least \$50,000 in gross receipts increased 13.9 percent. However, the change was not steady over time. In the 2004–08 period before the recession, the number of such organizations grew 15 percent. During and after the recession (2008–12), the number of public charities at the \$50,000 revenue level declined slightly by less than 1 percent, or 2,507 organizations. This net decline reflected some closures and some births, yet is very modest compared with concerns about the impact of the recession on the continued operation of public charities.

Figure 1: Tracking public charities before, during, and after the 2007-10 recession



During the recession, it was more likely that public charities suffered from lower revenue, rather than close. Compared with the percentage that died, more than twice as many public charities fell below the \$50,000 threshold or submitted no financial information. While charity closure sometimes makes big news, it occurs regularly. Even in the best of economic times, some organizations die each year. An Urban Institute analysis shows that between 2000 and 2008, approximately 1 to 2 percent of nonprofit organizations formed in 2000 dropped from the Business Master File (BMF) annually, without considering revenue levels.<sup>2</sup> The analysis for this brief finds only a very small acceleration in that rate of demise from 2008 through 2012 among public charities with revenue of \$50,000 or more, despite the severity of the economic downturn.



#### Examining changes in the number of filing charities with gross receipts of \$50,000 or more

To look at the impact of the recession on the number of public charities with gross receipts of \$50,000 or more, we use data from the period of economic growth right before the recession as a point of comparison. We then look at the number of organizations above the \$50,000 threshold at the start of the recession and four years later. We compare the changes during the recession and its aftermath with the baseline numbers.

Figure 1 depicts the baseline and aftermath periods separately. The results for the baseline period, which are at the top of the figure, reflect a period when the overall economy was growing. By taking a snapshot of a group of charities in 2004 and tracking those same organizations in a later year, we

Source: Urban Institute calculations based on data from the IRS Business Master File, 2004, 2008, and 2012.

can identify how many organizations underwent various common transitions that occur even during periods of economic growth. These transitions include the number and percentage of public charities that filed a 990 or 990-EZ, or filed a 990-N, which means revenue was below the then-required filing threshold;<sup>3</sup> those that closed, meaning they no longer appear in the BMF maintained by the IRS, the official record of public charities; those that did not file at all for the year, some of which did file again in a later year; and the very small percentage that changed status from public charity to private, non-grantmaking foundation.<sup>4</sup>

We then compare the number and frequency of those transitions in the baseline period with transitions during the recession and aftermath. There is a decline in the number and percentage of charities that maintain revenue above \$50,000 and a corresponding increase in the number and percentage of public charities that filed with revenues below \$50,000. There is very little change in the number and percentage of charities that closed between the two periods and very little change in the number and percentage of organizations that did not file for at least one year.

**Baseline: 2004–08**

At the top of figure 1, for the baseline period, 221,264 public charities filed an IRS Form 990 or 990-EZ with gross receipts at \$50,000 or more in 2004. We tracked those same organizations in 2008, when 83.2 percent remain above the \$50,000 threshold, 8.4 percent filed with gross receipts below \$50,000, 0.5 percent lost status as a public charity

and shifted to be treated as a private foundation, and 4.2 percent closed. Another 3.7 percent did not file any type of form with the IRS yet remained (as of 2008) in the IRS BMF so are not considered closed. These are not shown on figure 1.

Also note that by 2008, another 70,486 organizations had newly filed with \$50,000 in gross receipts that had not done so in 2004. These include organizations formed since 2004 and older organizations that had not previously reached that revenue threshold.

**Recession and aftermath: 2008–12**

We take a new snapshot of all organizations filing with \$50,000 or more in revenue for 2008 and track those organizations in 2012. We start with 254,525 organizations to include those newly filing at that level. By 2012, 79.4 percent of those 2008 filers remained above the \$50,000 revenue level; 11.3 percent filed with revenue less than \$50,000; 5.0 percent closed; and 0.9 percent lost status as a public charity and were treated as private, non-grantmaking foundations. Another 3.4 percent did not file any documentation with the IRS in 2012 and are not shown in figure 1.

**Comparison of baseline with recession and aftermath**

The number and frequency of transitions (to lower revenue, closure, or change in status) are all higher in the recession and aftermath period than during the baseline years. Yet, the increases are by relatively modest amounts. During the baseline period, 4.2 percent of the charities

**Table 1: Filing status in 2012 for public charities that transitioned from \$50,000 or more in gross receipts in 2004 to below that level in 2008**

**Filed above \$50,000 in 2004 but below that in 2008:**

	Filing status in 2012					
	Filed with revenues of \$50,000 or more	Filed with revenues of less than \$50,000	Did not file at all	Lost 501(c)(3) public charity status*	Closed	Total
<b>Number</b>	4,047	10,271	1,075	321	2,884	18,598
<b>Percentage</b>	21.8%	55.2%	5.8%	1.7%	15.5%	100%

Source: Urban Institute calculations based on data from the IRS Business Master File, 2004, 2008, and 2012.

\* Organizations are now listed as 501(c)(3) private foundations.

Table 2: Filing status in 2012 for public charities that transitioned from \$50,000 or more in gross receipts in 2004 to not filing any form in 2008

**Filed above \$50,000 in 2004 but did not file any form in 2008:**

	Filing status in 2012						
	Filed with revenues of \$50,000 or more	Filed with revenues of less than \$50,000	Did not file at all	Lost 501(c)(3) public charity status*	Closed	Total	
<b>Number</b>	794	953	1,189	26	5,174	8,136	
<b>Percentage</b>	9.8%	11.7%	14.6%	0.3%	63.6%	100%	

Source: Urban Institute calculations based on data from the IRS Business Master File, 2004, 2008, and 2012.

\* Organizations are now listed as 501(c)(3) private foundations.

tracked in this analysis closed between 2004 and 2008; during the recession and aftermath, 5 percent did. During the baseline period, 0.5 percent of public charities lost public charity status; in the recession and aftermath period, this nearly doubled to 0.9 percent yet remained a very low percentage of the total.

The single largest type of transition in the baseline period affected 8.4 percent of charities, and that was seeing revenue fall below \$50,000. During the recession and aftermath, 11.3 percent of the charities that filed with gross receipts above in 2008 saw gross receipts below \$50,000 in 2012. The majority of organizations that did not maintain revenue above \$50,000 by 2012 had lower revenue; they did not close.

**As of 2012, what happened to the “lower revenue” filers of 2008?**

Of the 18,598 organizations in figure 1 that started above \$50,000 in gross receipts in 2004 but that fell below the \$50,000 threshold in 2008, 15.5 percent had closed by 2012. About one-fifth (21.8 percent) of these filers in 2008 that had revenue below \$50,000 rose above that threshold by 2012. The majority (55.2 percent) of these “lower revenue” organizations, though, remained below \$50,000 in revenue in 2012.

Table 1 shows that among organizations that saw revenue fall below \$50,000 between 2004 and 2008, 15.5 percent closed by 2012. Not shown is the result that among organizations that reported \$50,000 or more in gross receipts in 2008, only 4.5 percent closed by 2012. We conclude that while more organizations that fall below \$50,000 in revenue did close by 2012—compared with those that

remained above that level—seeing revenue decline was not a certain indicator of closure in the years immediately following the economic downturn. In fact, more than 75 percent of organizations that saw revenue fall by 2008 remained operating and filing by 2012, as indicated by their filing of a 990, 990-EZ, or 990-N.

**As of 2012, what happened to the “non-filers” of 2008?**

In 2008, 3.7 percent that had revenue above \$50,000 in 2004 did not file any type of return but remained in the BMF. The 8,136 organizations in this category are not shown in figure 1.

By 2012, over 6 in 10 (63.6 percent) of these non-filers from 2008 had closed. Another 9.8 percent filed in 2012 with revenue above \$50,000, and 11.7 percent filed with revenue less than \$50,000. About one in seven (14.6 percent) did not file any type of return for 2012.

Failing to file in one year is not an indication that an organization will close and no longer show on the BMF. However, organizations that failed to file were more likely to close within four years than were those that continued to file.

**Discussion and conclusion**

From 2000 to 2005, a period that overlaps a period of economic growth, the National Center for Charitable Statistics reported a change in the number of public charities in the BMF that equates to net annual growth rate of 4.4 percent for the number of registered charities.<sup>5</sup> Our research above shows that new nonprofit organizations were registered during the baseline years of 2004–08 and more

organizations formed even in the recession years and aftermath. This is further demonstrated in the conclusions drawn in previous work by the Urban Institute:

There was not a dramatic change in the number of applications for tax-exempt status (Form 1023) during the recession. On average, the IRS made determinations on approximately 49,000 applications for 501 (c)(3) tax exempt status per year since 2001. The applications ruled on during the recession did not deviate much from the average.<sup>6</sup>

That study further found,

While we did see a 5 percent drop in the number of new applications in 2008, the 2008 figures were still higher than the number of new applications in 2006. In addition, 2009 actually had the highest number of applications for new charities that had been seen in the previous 10 years.<sup>7</sup>

Even as new nonprofit organizations opened before and during the recession, existing organizations faced a series of pressures. The 2007–09 recession was characterized by Elizabeth Boris, director of the Center for Nonprofits and Philanthropy at the Urban Institute, as a “triple whammy” of reduced government funding, declines in contributed revenue, and rising needs.<sup>8</sup> Closure or bankruptcy of charitable nonprofit organizations, especially institutions that serve a large number of people, received extensive press coverage. Just a few among many examples include the Baltimore Opera Company, which filed for bankruptcy,<sup>9</sup> or Family Services of the Mid-South, in Memphis<sup>10</sup> and The Destiny Foundation of Central Florida,<sup>11</sup> both of which closed in 2009 after loss of government funding.

Media coverage of closures might have fostered a perception that the entire nonprofit sector was in peril during the recession. Despite this, the charitable nonprofit sector actually experienced a very modest decline in the numbers of organizations with revenue of \$50,000 or more from 2008 through 2012. However, to survive the recession and reduced funding, many nonprofit organizations greatly reduced services, cut staff, and took other drastic steps. Survival is not equivalent to a robust sector that continues to deliver on the missions that charities pursue. A later brief will examine more closely the financial impact on the public charities that survived the 2007–09 recession.

## Methods

This analysis uses records available from the Urban Institute from snapshots of the IRS BMF for December 2004, December 2008, and December 2012. The dataset consists of all public charities (excluding religious congregations and churches not required to file) that filed any type of IRS Form 990 in 2004 and tracks their filing status for 2008 and again for 2012. Because the study uses data from a 100 percent sample of reporting nonprofits, we do not report margins of error or confidence intervals for the statistics in the brief.

For each year, analysts determined the numbers of filing organizations (filing an IRS Form 990, Form 990–EZ, or Form 990–N). The base year calculation includes only organizations that were filing with over \$50,000 in revenue according to that BMF. This criterion is set to include only organizations that meet the minimum filing threshold for the IRS as of 2008. Below that threshold, the IRS does not keypunch all revenue information for a given organization. Setting the minimum for inclusion at \$50,000 for all base years also circumvents potential discrepancies in comparisons across periods, as the IRS changed the minimum threshold for filing a Form 990 or 990–EZ status from \$25,000 to \$50,000 for returns filed during the period covered by this study.

Thus, only organizations filing over \$50,000 in revenue in the base year are then measured according to their filing status in the latter year. Similarly, “born” organizations (those that were not listed in the base year BMF but have a ruling date after that year and appear in a later year’s BMF) must be filing with over \$50,000 in revenue to be counted. Organizations filing a 990–N are considered to be active and filing, but with under \$50,000 in revenue and are reported in the rows for “less than \$50,000.”

All percentages of change are calculated using the number of organizations that filed an IRS Form 990 or 990–EZ with \$50,000 or more in revenue in the base year of the period.

## Notes

1. Charities not required to disclose financial information to the IRS fall into two major categories: religious organizations that are not required to file with the IRS at any revenue level, and other charities with revenues under \$50,000.
2. Based on a sample of all 501(c) organizations; not restricted to 501(c)(3) public charities.
3. The revenue filing threshold for the 990-N was below \$25,000 through 2010, and below \$50,000 from 2010 on. Organizations that filed a 990-N are legally still operating although revenue data are not available. Note that some organizations that could have filed a 990-N based on their revenue did file a 990-EZ or a 990 with revenue amounts included.
4. See note 5.
5. Blackwood, et al., "The Nonprofit Sector in Brief, 2012," (Washington, DC: The Urban Institute, 2012). Calculation of annualized growth rate based on the number of public charities reported in table 3.
6. Blackwood and Roeger, "Recession or Rule Change?" (Washington, DC: The Urban Institute, 2012).
7. Ibid.
8. S. Banjo and M. Kalita, "Once-robust charity sector hit with mergers, closings," *Wall Street Journal*, February 2, 2010.
9. S. Strom, "Charities now seek bankruptcy protection," *New York Times*, February 19, 2009.
10. I. Wilhelm, "Some small groups fail in recession," *Chronicle of Philanthropy*, September 17, 2009, [www.philanthropy.com](http://www.philanthropy.com).
11. K. Santich, "Destiny Foundation to close, ending help for thousands of Orlando's working poor," *Orlando Sentinel*, September 10, 2009, [www.orlandosentinel.com](http://www.orlandosentinel.com).

## About the Authors

The authors of this paper are all members of the NCCS analysis team.

## About the Series

This three-part series builds on data from the Urban Institute's National Center for Charitable Statistics (NCCS) to study the Great Recession's impact on the financial health of nonprofit organizations. According to NCCS data, the charitable nonprofit sector proved surprisingly resilient during the Great Recession, evincing relatively stable "death rates" compared to the period directly before the recession. However, this does not imply that nonprofit organizations have been able to thrive by conducting business as usual. Even if the recession did not cause a sharp increase in the failure rate for nonprofits, certain types of organizations fared better than others.

The National Center for Charitable Statistics is a project of the Center on Nonprofits and Philanthropy at the Urban Institute. Please visit [nccs.urban.org](http://nccs.urban.org) for more detail.