
[Search Law School](#) [Search Cornell](#)

LII / Legal Information Institute

[home](#) [search](#) [find a lawyer](#) [donate](#)

Wex - LII's collaboratively built law dictionary and encyclopedia

[main page](#) [all pages](#) [wex articles](#) [español](#) [papers](#) [search](#) [FAQ](#)

Sponsor this page.

PSA: Sponsor This Page
Your link on this high-ranking page helps us provide free legal info.
topics.law.cornell.edu/wex

Ask A Lawyer Online.
Get an Answer ASAP!

Find a lawyer/specialist:

- [Business Law](#)
- [Tax Law](#)
- [All lawyers](#)

Donations cover only 20% of our costs

Non-Profits at LegalZoom
Concept to Fundraising in 3 Steps. Easy, Unlimited

Non-profit organizations


[SHARE](#)

in [wex](#) [wex articles](#)
[Overview](#) [Resources](#) [For example](#) [In other words](#)

non-profit organizations: an overview

A non-profit organization is a group organized for purposes other than generating profit and in which no part of the organization's income is distributed to its members, directors, or officers. Non-profit corporations are often termed "non-stock corporations." They can take the form of a [corporation](#), an individual enterprise (for example, individual charitable contributions), unincorporated association, [partnership](#), foundation (distinguished by its endowment by a founder, it takes the form of a trusteeship), or condominium (joint ownership of common areas by owners of adjacent individual units incorporated under state condominium acts). Non-profit organizations must be designated as nonprofit when created and may only pursue purposes permitted by statutes for non-profit organizations. Non-profit organizations include churches, public schools, public charities, public clinics and hospitals, political organizations, legal aid societies, volunteer services organizations, labor unions, professional associations, research institutes, museums, and some governmental agencies.

Non-profit entities are organized under state law. For Non-profit corporations, some states have adopted the Revised Model Non-Profit Corporation Act (1986). For Non-profit associations, a few states have adopted the Uniform Unincorporated Non-Profit Association Act (See Colorado §§ 7-30-101 to 7-30-119). Some states exempt non-profit organizations from state tax and state employment programs such as unemployment compensation contribution. Some states give non-profit organizations immunity from tort liability (see [Massachusetts law](#) giving immunity to a narrow group of non-profit organizations) and other states limit tort liability by enacting a damage cap. State law also governs solicitation privileges and accreditations requirements such as licenses and permits. Each state defines non-profit differently. Some states make distinctions between organizations not operated for profit without charitable goals (like a sports or professional association) and charitable associations in order to determine what legal privileges the respective organizations will be given.

For federal tax purposes, an organization is exempt from taxation if it is organized and operated exclusively for religious,

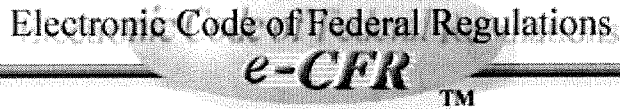


PSA: **CRS Constitution**
Congressional Research
Service
US Constitution Annotated
www.law.cornell.edu

[about us](#) [help](#) [terms of use](#)

charitable, scientific, public safety, literary, educational, prevention of cruelty to children or animals, and/or to develop national or international sports. Social security tax is also currently optional although 80 percent of the organizations elect to participate.

[Home Page](#) > [Executive Branch](#) > [Code of Federal Regulations](#) > [Electronic Code of Federal Regulations](#)



e-CFR Data is current as of October 7, 2009

[Return to search results](#)

Title 32: National Defense

PART 37—TECHNOLOGY INVESTMENT AGREEMENTS

Subpart J—Definitions of Terms Used in This Part

[Browse Previous](#) | [Browse Next](#)

§ 37.1315 Nonprofit organization.

(a) Any corporation, trust, association, cooperative or other organization that:

- (1) Is operated primarily for scientific, educational, service, or similar purposes in the public interest.
- (2) Is not organized primarily for profit; and
- (3) Uses its net proceeds to maintain, improve, or expand the operations of the organization.

(b) The term includes any nonprofit institution of higher education or nonprofit hospital.

[Browse Previous](#) | [Browse Next](#)

For questions or comments regarding e-CFR editorial content, features, or design, email ecfr@nara.gov.

For questions concerning e-CFR programming and delivery issues, email webteam@gpo.gov.

[Section 508 / Accessibility](#)

[Code of Federal Regulations]
[Title 32, Volume 1]
[Revised as of January 1, 2008]
From the U.S. Government Printing Office via GPO Access
[CITE: 32CFR37.1315]

[Page 238]

TITLE 32--NATIONAL DEFENSE

CHAPTER I--OFFICE OF THE SECRETARY OF DEFENSE

PART 37_TECHNOLOGY INVESTMENT AGREEMENTS--Table of Contents

Subpart J_Definitions of Terms Used in This Part

Sec. 37.1315 Nonprofit organization.

(a) Any corporation, trust, association, cooperative or other organization that:

(1) Is operated primarily for scientific, educational, service, or similar purposes in the public interest.

(2) Is not organized primarily for profit; and

(3) Uses its net proceeds to maintain, improve, or expand the operations of the organization.

(b) The term includes any nonprofit institution of higher education or nonprofit hospital.



Published on *Citizen Media Law Project* (<http://www.citmedialaw.org>)

[Home](#) > [Browse Guide Sections](#) > [Forming a Business and Getting Online](#) > [Creating a Business](#) > [Choosing a Business Form](#) > [Content](#)

Nonprofit Organization

Surprisingly, there is no legal definition of a nonprofit organization. In general, a nonprofit organization is one that is organized to achieve a purpose other than generating profit. Despite this, a nonprofit organization is not precluded from making a profit or engaging in profit-making activities. It *is* prohibited from passing along any profits to those individuals who control it, like founders, directors, officers, employees, and members. Nothing, however, prevents a nonprofit from paying reasonable salaries to officers, employees, and others who perform a service for it.

This section is aimed at those seeking to start and operate a **nonprofit corporation** that is a public charity under section 501(c)(3) of the U.S. Internal Revenue Code (the "tax code"). A corporation is the most common and generally most appropriate structure used to create a nonprofit organization. You should seek the advice of an experienced nonprofit lawyer if you wish to establish a nonprofit organization using some other business structure.

Section 501(c)(3) of the tax code exempts certain nonprofit organizations from federal corporate income taxes. Gaining tax-exempt status gives a nonprofit corporation credibility with potential donors because it shows that the organization has a legitimate charitable purpose, a formal structure for accomplishing its goals, and is publicly accountable. Section 501(c)(3) **tax exemptions are denied to any nonprofit organization engaging in certain political ^[1] or legislative ^[2] activities**, which will be discussed below ^[3].

Section 501(c)(3) classifies nonprofit organizations into **private foundations** and **public charities**. In all likelihood, you want your nonprofit organization to avoid being classified as a private foundation because a number of complex additional regulations and restrictions apply to them. When you fill out your application for 501(c)(3) tax-exempt status, you should request to be classified as a public charity in Part X of Form 1023 ^[4], usually by checking the box in Line 5g, 5h, or 5i (depending on the nature of your funding).

In order to qualify as a **public charity**, a nonprofit corporation must be formed and operated for a charitable purpose. "Charitable" is a narrow descriptor given the many types of organizations covered under section 501(c)(3). The section ^[5] also applies to organizations with religious, educational, scientific, or literary purposes, among others. These purposes must be for the benefit of some significant section of society, whether it be the general public or a specific community.

Additionally, a public charity must be **publicly supported**. This means that the nonprofit corporation must normally receive funds from governmental entities or multiple private donors. Contrast this with a private foundation, which typically gets its funds from a single source. The calculations behind what "public support" means are complicated, see the Nonprofit Law Blog's Public Support Tests ^[6] for details.

Keep in mind the following factors as you consider whether to operate as a nonprofit public charity corporation:

Liability

Like other corporate entities, nonprofit organizations can be sued for any number of reasons, including:

- publishing defamatory statements
- neglecting to pay taxes (tax exemptions under 501(c)(3) only cover federal corporate income tax; the nonprofit is still responsible for other taxes)
- violating state charitable solicitation laws, antitrust laws, or the tax code by engaging in prohibited political activity or substantial lobbying
- lawsuits common to any business: wrongful termination, employment discrimination, personal injury, and breach of contract

Like shareholders in a for-profit [corporation](#) ^[7], directors of a nonprofit corporation, and other individuals who participate in the founding and/or operating of the nonprofit organization, enjoy [limited liability](#) ^[8] for the debts and obligations of the organization, including for the unlawful acts of other directors, officers, and employees.

- For example, assume you are a director of a nonprofit corporation for which you and others operate a blog about the environmental impacts of deep-sea fishing. If a **fellow director or employee publishes a defamatory blog post** or posts copyright infringing material on the nonprofit organization's website, you are not personally liable by virtue of your status as a director of the organization, and **your liability ordinarily is limited** to the amount you contributed to the nonprofit organization (if any).

However, directors, officers, and employees may be [personally liable](#) ^[9] for their own wrongful conduct, regardless of whether they are paid for their work or are volunteers.

- For example, assume that **you make defamatory statements** about one of the larger fishing companies. The fishing company can **sue you personally** and satisfy the judgment out of your personal assets.

Note that if you apply for a small business loan to help fund your nonprofit corporation, the lender probably will require you to give a personal guarantee. In that case, you are personally responsible for the paying back the debt, even if your business is a nonprofit corporation and even if there is no basis for [piercing the corporate veil](#) ^[10].

Formation

Nonprofit organizations usually incorporate in the state where they expect to do business. Forming a nonprofit 501(c)(3) corporation is burdensome. The section on [Forming a Nonprofit Corporation](#) ^[11] provides the steps necessary to get established in general; the section on [State Law: Forming a Nonprofit Corporation](#) ^[12] outlines what is required by the fifteen most populous U.S. states and the District of Columbia.

There are two main steps involved in forming a nonprofit corporation:

1. Incorporating as a nonprofit corporation at the state level

If you want to incorporate, you must file articles of incorporation ^[13] with a state office, usually the Secretary of State. Creating articles of incorporation for a nonprofit corporation can be more involved than creating one for a for-profit corporation because you will need to include language about the purpose of your nonprofit corporation in order to be eligible for 501(c)(3) tax exemptions. Drafting the articles of incorporation generally does not require the assistance of a lawyer, and usually the filing fees are significantly less than the filing fees for incorporating as a for-profit corporation.

You will also need to create corporate bylaws ^[14] which are the internal rules and procedures of the nonprofit corporation. Drafting bylaws that are highly customized to your business may involve some complexity. Additionally, you must keep a records book ^[15] at the nonprofit's place of business.

The incorporators and/or directors of a newly formed nonprofit corporation should hold an initial organizational meeting to adopt bylaws and elect initial directors (if not named in the articles of incorporation), among other things. Minutes of this meeting must be recorded.

2. Applying for 501(c)(3) corporate income tax exemptions at the federal level

You need to file Form 1023 ^[4] in order to apply for tax-exempt status under 501(c)(3). The application process is complicated, but can be done without the assistance of a lawyer if you are willing to devote the requisite time and energy in to the process. IRS resources (both the website and the call centers) are of immense help as is Anthony Mancuso's book on "How to form a Nonprofit Corporation" which provides line-by-line guidance on how to complete the application form. The filing fee for the application is high: \$300 if your gross receipts have not exceeded or will not exceed \$10,000 annually over a 4-year period, and \$750 otherwise. You do not have to apply for tax-exempt status if you anticipate bringing in gross receipts of less than \$5,000 per year. If you actually bring in more than \$5,000 in any particular year, however, you will need to file Form 1023 within 90 days of the end of the year. See Application for 501(c)(3) Tax Exemption ^[16] for details.

Note that if the IRS classifies you as a private foundation and not a public charity, you should contact an experienced nonprofit lawyer ^[17] immediately to understand the implications of such a classification.

Management Structure

Like other corporations, a nonprofit corporation consists of the following classes of people:

- **Incorporators:** Incorporators form the nonprofit corporation.
- **Board of Directors:** The board of directors makes major strategic and financial decisions for the organization and ensures compliance with relevant legal and accounting requirements.
- **Officers:** Officers oversee day-to-day affairs; usually officers consist of the president, vice-president, secretary, and treasurer.
- **Employees:** Employees execute the decisions made by the directors and officers.

Note that any or all of these people may be volunteers and that the categories bleed into each other.

Especially in nonprofit settings, force of personality becomes the key to the identity of the decision makers.

Another category unique to nonprofits is **members**. Members are a special class of individuals and/or organizations that have rights to participate in the current and future affairs of the nonprofit organization. Nonprofit organizations are not required to have members. You should consult with an experienced nonprofit lawyer if you wish to become a membership organization.

State corporate laws and the nonprofit organization's corporate bylaws govern such things as:

- the required number of directors, or minimum and maximum sizes of the board
- voting requirements for valid board action, such as how many directors are needed to constitute a quorum
- whether action in writing without a formal meeting is permitted

The full array of issues surrounding nonprofit governance is beyond the scope of this Guide. For example, there are reasons to both limit a board's numbers (concentrate control) and broaden a board's numbers (live up to the ideals of representation). A good legal professional or legal resource ^[18] should be able to help you find the best structure for your nonprofit. For the board example above, in "Starting and Managing a Nonprofit Organization," Bruce R. Hopkins suggests creating an additional advisory committee, thus satisfying concerns of representation and control. You should seek out resources such as Hopkins' book, or consult with a lawyer experienced in nonprofit matters.

Operation

Operating a nonprofit organization is often burdensome and costly. There are reporting requirements and operating restrictions that you need to keep in mind in order to to comply with the law and maintain 501(c)(3) exempt status. Expect increased paperwork and red tape in order to comply with:

- state corporate laws' formalities for corporate governance
- state laws on charitable organizations' record-keeping requirements
- IRS regulations on tax exemptions (do not underestimate the time and energy that you will need to spend organizing the fundraising arm of your nonprofit corporation in order to solicit and accept donations and remain a publicly supported public charity)
- the public's right to inspect your nonprofit organization's corporate records ^[15] book

Note that the operating restrictions and requirements are even more stringent if your organization qualifies as a private foundation and not as a public charity.

Additionally, you will also be responsible for the tax and other regulatory obligations imposed on all small businesses. For more on the tax obligations of small businesses, see the Tax Obligations of Small Businesses ^[19] section and the IRS's informational guide, Publication 583 (1/2007), Starting a Business and Keeping Records ^[20].

Ownership of Assets/Distribution of Profits

Once incorporated, the newly created nonprofit organization is a separate legal entity from its incorporators, directors, and employees. In fact, a nonprofit has no owners, at least not in any ordinary

sense. The nonprofit corporation owns all assets of the business and is entitled to receive all profits from its operation. Among the most important assets of any nonprofit corporation that operates a website or blog are its articles, posts, videos, and other content. For details on who owns what from a copyright perspective, see the [Copyright Ownership of Articles and Posts](#) ^[21] section.

Despite its name, a nonprofit organization is not precluded from making a profit or engaging in profit-making activities. However, a nonprofit is prohibited from passing along any profits to those individuals who control them, like founders, directors, officers, key employees, and members. (A handful of states allow a nonprofit corporation to issue stock as a mechanism of control, but no dividend rights accompany the issued stock.) Instead, a nonprofit organization must use any profits to further its program activities or "exempt functions." It may also invest profits in another tax-exempt organization.

Although a nonprofit organization may not distribute profits to its directors, officers, key employees, or members, a nonprofit organization may pay its employees a salary and give them benefits. A nonprofit organization may also pay directors for their expenses and time spent attending director meetings. The key is that the salaries and payments must be reasonable. Excessive payments or exorbitant amounts posturing as salaries or compensation violate the tax code and may lead to penalties and a loss of tax-exempt status.

Note: If you dissolve your nonprofit organization, you must invest all profits into another nonprofit organization.

Tax Treatment

If you obtain 501(c)(3) tax-exempt status, your nonprofit corporation will be exempt from paying federal corporate income tax. However, the **501(c)(3) tax exemption does not apply to unrelated business taxable income or "UBTI,"** which refers to income generated from regular trade or business activity that is not substantially related to the nonprofit organization's exempt purpose. Consult the IRS publication, [Tax on Unrelated Business Income of Exempt Organizations](#) ^[22], for examples of what constitutes "unrelated business income."

Note that your nonprofit corporation **may** engage in unrelated trade or business activity, but will be liable for the taxes on the gross income exceeding \$1,000 generated by it. In this situation, you will need to file [Form 990T](#) ^[23], the UBTI return, with the IRS.

If you achieve 501(c)(3) tax-exempt status, you will still need to file an annual tax return with the IRS, unless your organization's gross receipts are normally \$25,000 or less. Organizations beyond the \$25,000 threshold with gross receipts below \$100,000 and total assets at the end of the year less than \$250,000 can file the return on [Form 990EZ](#) ^[24]. Organizations with gross receipts above \$100,000 and assets above \$250,000 must file the return on [Form 990](#) ^[25]. For details, including how to calculate gross receipts, see the [Instructions for Form 990 and Form 990-EZ](#) ^[26].

Beyond exemption for federal income tax, qualifying under 501(c)(3) provides another important benefit: donations to the organization will be tax deductible by donor, making fundraising easier. Moreover, some donors, like foundations and the federal government, are barred from funding projects that don't have 501(c)(3) status).

You may also be eligible for other special benefits, such as:

- discounted postal rates
- state tax exemptions (such as sales tax), and limited tort ^[27] liability
- local tax exemptions, including property tax

Taxation is a very technical subject and you should consider having the nonprofit corporation's tax returns and reports handled by an experienced tax accountant.

Prohibition on Political and Legislative Activities

An important issue is the federal tax code's rule against 501(c)(3) organizations engaging in political ^[1] and legislative ^[2] activities. Because the proscribed activities violate the tax code (and may result in the revocation of the organization's tax-exempt status, the imposition of an excise tax, and liability for back taxes), you must understand how 501(c)(3) defines each type of activity. See the section on Prohibitions on Political and Legislative Activities ^[28] in this guide for more information.

Other Considerations

As discussed above, forming and maintaining a 501(c)(3) nonprofit corporation can take a lot of time, energy, and money, especially if you are beyond the gross receipts threshold requiring you to formally apply for 501(c)(3) exempt status ^[16]. You may worry that the work needed to incorporate will distract you from your online publishing activities, but also believe that the benefits of tax-exempt status are too important to pass up.

One option to explore is whether a relationship with a "fiscal sponsor" is right for you. **Fiscal sponsorship** is the mechanism by which a nonprofit organization with 501(c)(3) status lends its legal and nonprofit status to persons, groups, or businesses that engage in activities related to the sponsor's mission. Through fiscal sponsorship, you may be able to function as a nonprofit organization (including receiving tax-deductible donations) without going through the hassle of forming your own independent organization. Fiscal sponsorship also offers the possibility of benefiting from the sponsor's established administrative infrastructure, financial liquidity, and expertise. In exchange for these services, the fiscal sponsor generally keeps a percentage of each financial transaction or charges a monthly or yearly membership fee. Note that fiscal sponsors that work on a percentage basis or provide services beyond simply acting as an umbrella organization often have a minimum fundraising requirement for eligibility.

Seeking a fiscal sponsor may be best if you are:

- working on a short-term project
- initiating a project that has yet to show long-term viability (in some cases fiscal sponsors may help a new project spin off as an independent nonprofit organization)
- waiting for IRS approval on your application for the 501(c)(3) tax exemption
- performing work effectively, but without access to support staff

You will need to weigh the benefits of gaining immediate tax-exempt status and administrative support (if selected) against taking the time and effort to apply for fiscal sponsorship, relinquishing some control, and paying the fees charged by a sponsor.

Some examples of fiscal sponsors include:

- Fractured Atlas ^[29] is an organization that offers fiscal sponsorship as well as other services (such as event liability insurance and even health insurance) to individuals or groups involved in the arts (including publishing). In order to apply, you must become a member. While rates for membership start at \$7.50/month, there is no fee to apply for fiscal sponsorship. Once you are sponsored, Fractured Atlas ^[30] will accept donations for you and act as a bank from which you can withdraw funds at any time. When you withdraw from your account, you are charged an administrative fee of the greater of \$10 or 6% of the funds withdrawn. All sponsored groups can begin fundraising immediately once they are approved by the Fractured Atlas board.
- The Tides Center ^[31] is a large fiscal sponsor supporting programs that seek to accelerate social change. In addition to sponsorship, the Tides Center ^[31] offers other office-related services such as human resources management and payroll management. Tides ^[31] offers more comprehensive services and greater availability of experts than most fiscal sponsors and charges a fee equal to 9% of gross annual revenue. The Tides Center ^[31] does not offer sponsorship to projects with less than \$30,000 in annual funding and does not offer sponsorship to individuals.
- Los Angeles-based Community Partners ^[32] provides sponsorship services to southern California organizations. They do not have a minimum fund-raising requirement, but they analyze your business structure to determine the community's need for your project and the likelihood that your project will raise sufficient funding.

-
- Articles of Incorporation for Nonprofits ^[13]
 - Bylaws for Nonprofit Corporations ^[14]
 - Corporate Records for Nonprofit Corporations ^[15]
 - Application for 501(c)(3) Tax Exemption ^[16]
 - Prohibitions on Political and Legislative Activities ^[28]

◁ Corporate Records
up

[33] [34] [13]
Articles of Incorporation for Nonprofits ▷

United States Business Formation Taxes

Source URL (retrieved on 10/15/2009 - 6:41pm): <http://www.citmedialaw.org/legal-guide/nonprofit-organization>

Links:

- [1] <http://www.irs.gov/charities/charitable/article/0,,id=163395,00.html>
- [2] <http://www.irs.gov/charities/charitable/article/0,,id=163392,00.html>
- [3] <http://www.citmedialaw.org/nonprofit-organization#tax>
- [4] <http://www.irs.gov/pub/irs-pdf/f1023.pdf>
- [5] <http://www.irs.gov/charities/charitable/article/0,,id=175418,00.html>
- [6] http://www.nonprofitlawblog.com/home/2006/01/public_support_.html
- [7] <http://www.citmedialaw.org/legal-guide/corporation>
- [8] <http://www.citmedialaw.org/legal-guide/limited-liability>
- [9] <http://www.citmedialaw.org/legal-guide/personal-liability>
- [10] <http://www.citmedialaw.org/legal-guide/piercing-corporate-veil>
- [11] <http://www.citmedialaw.org/legal-guide/forming-nonprofit-corporation>
- [12] <http://www.citmedialaw.org/legal-guide/state-law-forming-nonprofit>
- [13] <http://www.citmedialaw.org/legal-guide/articles-incorporation-nonprofits>
- [14] <http://www.citmedialaw.org/legal-guide/bylaws-nonprofit-corporations>
- [15] <http://www.citmedialaw.org/legal-guide/corporate-records-nonprofit-corporations>

- [16] <http://www.citmedialaw.org/legal-guide/application-501c3-tax-exemption>
- [17] <http://www.citmedialaw.org/legal-guide/hiring-lawyer>
- [18] <http://www.citmedialaw.org/legal-guide/finding-legal-help>
- [19] <http://www.citmedialaw.org/legal-guide/tax-obligations-small-businesses>
- [20] <http://www.irs.gov/publications/p583/index.html>
- [21] <http://www.citmedialaw.org/legal-guide/copyright-ownership-content-business>
- [22] <http://www.irs.gov/pub/irs-pdf/p598.pdf>
- [23] <http://www.irs.gov/pub/irs-pdf/f990t.pdf>
- [24] <http://www.irs.gov/pub/irs-pdf/f990ez.pdf>
- [25] <http://www.irs.gov/pub/irs-pdf/f990.pdf>
- [26] <http://www.irs.gov/pub/irs-pdf/i990-ez.pdf>
- [27] <http://www.infoplease.com/ce6/society/A0849114.html>
- [28] <http://www.citmedialaw.org/legal-guide/prohibitions-political-and-legislative-activities>
- [29] <http://www.fracturedatlas.org/>
- [30] <http://www.fracturedatlas.org>
- [31] <http://www.tidescenter.org/>
- [32] <http://communitypartners.org/>
- [33] <http://www.citmedialaw.org/legal-guide/corporate-records>
- [34] <http://www.citmedialaw.org/legal-guide/choosing-business-form>

thefreedictionary.com

A corporation or an association that conducts business for the benefit of the general public without shareholders and without a profit motive.

Nonprofits are also called not-for-profit corporations. Nonprofit corporations are created according to state law. Like for-profit corporations, nonprofit corporations must file a statement of corporate purpose with the Secretary of State and pay a fee, create articles of incorporation, conduct regular meetings, and fulfill other obligations to achieve and maintain corporate status.

Nonprofit corporations differ from profit-driven corporations in several respects. The most basic difference is that nonprofit corporations cannot operate for profit. That is, they cannot distribute corporate income to shareholders. The funds acquired by nonprofit corporations must stay within the corporate accounts to pay for reasonable salaries, expenses, and the activities of the corporation. If the income of a corporation inures to the personal benefit of any individual, the corporation is considered to be profit driven. Salaries are not considered personal benefits because they are necessary for the operation of the corporation. An excessive salary, however, may cause a corporation to lose its nonprofit status.

Nonprofit corporations are exempt from the income taxes that affect other corporations but only if they conduct business exclusively for the benefit of the general public. State laws on

corporations vary from state to state, but generally states give tax breaks and exemptions to nonprofit corporations that are organized and operated exclusively for either a religious, charitable, scientific, public safety, literary, or educational purpose, or for the purpose of fostering international sports or preventing cruelty to children or animals. Nonprofit organizations may charge money for their services, and contributions to tax-exempt nonprofit organizations are tax deductible. The Internal Revenue Service must approve the tax-exempt status of all nonprofit organizations except churches.

A vast number of organizations qualify for nonprofit status under the various definitions. Nonprofit organizations include churches, soup kitchens, charities, political associations, business leagues, fraternities, sororities, sports leagues, Colleges and Universities, hospitals, museums, television stations, symphonies, and public interest law firms.

A nonprofit corporation with a public purpose is just one organization that qualifies for tax-exempt status. Under Section 501 of the Internal Revenue Code (26 U.S.C.A. § 501), more than two dozen different categories of income-producing but not-for-profit organizations are exempt from federal income taxes. These other tax-exempt organizations include credit unions, civic leagues, recreational clubs, fraternal orders and societies, labor, agricultural, and horticultural organizations, small insurance companies, and organizations of past or present members of the armed forces of the United States.

The number of nonprofit corporations in the United States continued to increase into the twenty-first century. Although nonprofit corporations cannot produce dividends for investors, they provide income for the employees, and they foster work that benefits the public.

The activities of nonprofit corporations are regulated more strictly than the activities of other corporations. Nonprofit corporations cannot contribute to political campaigns, and they cannot engage in a substantial amount of legislative Lobbying.

Further readings

Barrett, David W. 1996. "A Call for More Lenient Director Liability Standards for Small, Charitable Nonprofit Corporations." *Indiana Law Journal* 71 (fall).

Hammack, David C., ed. 1998. *Making the Nonprofit Sector in the United States*. Bloomington: Indiana Univ. Press.

Ott, J. Steven, ed. 2001. *Understanding Nonprofit Organizations: Governance, Leadership, and Management*. Boulder, Colo.: Westview Press.

West's Encyclopedia of American Law, edition 2. Copyright 2008 The Gale Group, Inc. All rights reserved.

nonprofit *adjective* altruistic, beneficent, charitable, eleemosynary, humanitarian, munificent, philanthropic, public service

Associated concepts: nonprofit corporation

Burton's Legal Thesaurus, 4E. Copyright © 2007 by William C. Burton. Used with permission of The McGraw-Hill Companies, Inc.

Copyright © 2009 Farlex, Inc. **Source URL:** <http://legal-dictionary.thefreedictionary.com/Non-profit+organization>

Non-profit organization

From Wikipedia, the free encyclopedia
(Redirected from Nonprofit)

A **nonprofit organization** (abbreviated **NPO**, also **not-for-profit**^[1]) is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals. Examples of NPOs include charities (i.e. charitable organizations) , trade unions, and public arts organizations. Most governments and government agencies meet this definition, but in most countries they are considered a separate type of organization and not counted as NPOs.

Contents

- 1 Non-profit distinction
- 2 Nature and goals
- 3 Legal aspects
 - 3.1 Formation and structure
 - 3.2 Tax exemption
 - 3.3 United States
 - 3.4 Canada
 - 3.5 India
 - 3.6 South Africa
 - 3.7 United Kingdom
- 4 Issues faced by NPOs
- 5 Examples
- 6 On the Internet
- 7 Other terminology for the sector
- 8 See also
- 9 References
- 10 External links

Non-profit distinction

Whereas for-profit corporations exist to earn and distribute taxable business earnings to shareholders, the nonprofit corporation exists solely to provide programs and services that are of public benefit. Often these programs and services are not otherwise provided by local, state, or federal entities. While they are able to earn a profit, more accurately called a surplus, such earnings must be retained by the organization for its future provision of programs and services.

Earnings may not benefit individuals or stake-holders.^[2] Nonprofit organizations may put substantial funds into hiring leadership and management personnel. In the past many nonprofits considered this to be unreasonably businesslike and money-focused, but since the late 1980s there has been a growing consensus that nonprofits can achieve their missions more effectively by using some of the same methods developed in for-profit enterprises. These include effective internal management, ensuring accountability for results, and monitoring the performance of different divisions or projects in order to make the best use of their funds and people. Those require management and that, in turn, begins with the organization's mission.^[3]

Nature and goals

NPOs are often charities or service organizations; they may be organized as a not-for-profit corporation or as a trust, a cooperative, or they may be purely informal.

Sometimes they are also called foundations, or endowments that have large stock funds. A very similar organization called the supporting organization operates like a foundation, but they are more complicated to administer, they are more tax favored, and the public charities that receive grants from them must have a specially determined relationship.

Foundations give out grants to other NPOs, or fellowships and direct grants to participants. However, the name *foundations* may be used by any not-for-profit corporation — even volunteer organizations or grass roots groups.

Applying Germanic or Nordic law (e.g., Germany, Sweden, Finland), NPOs typically are voluntary associations, although some have a corporate structure (e.g. housing cooperatives). Usually a voluntary association is founded upon the principle of one-person-one-vote.

Legal aspects

There is a wide diversity of structures and purposes in the NPO landscape. For legal classification and eventual scrutiny, there are, nevertheless, some structural elements of prime legal importance:

- Economic activity
- Supervision and management provisions
- Representation
- Accountability and Auditing provisions
- Provisions for the amendment of the statutes or articles of incorporation
- Provisions for the dissolution of the entity
- Tax status of corporate and private donors
- Tax status of the foundation

Some of the above must be, in most jurisdictions, expressed in the document of establishment. Others may be provided by the supervising authority at each particular jurisdiction.

While affiliations will not affect a legal status, they may be taken into consideration in legal proceedings as an indication of purpose.

Most countries have laws which regulate the establishment and management of NPOs, and which require compliance with corporate governance regimes. Most larger organizations are required to publish their financial reports detailing their income and expenditure for the public. In many aspects they are similar to business entities though there are often significant differences. Both non-profit and for-profit entities must have board members, steering committee members, or trustees who owe the organization a fiduciary duty of loyalty and trust. A notable exception to this involves churches, which are often not required to disclose finances to anyone, including church members, though most churches remain fiscally transparent with their members.

Formation and structure

In the United States of America, nonprofit organizations are formed by incorporating in the state in which they expect to do business. The act of incorporating creates a legal entity enabling the organization to be treated as a corporation under law and to enter into business dealings, form contracts, and own property as any other individual or for-profit corporation may do.

Nonprofits can have members but many do not. The nonprofit may also be a trust or association of members. The

organization may be controlled by its members who elect the Board of Directors, Board of Governors or Board of Trustees. Nonprofits may have a delegate structure to allow for the representation of groups or corporations as members. Alternately, it may be a non-membership organization and the board of directors may elect its own successors.

A primary difference between a nonprofit and a for-profit corporation is that a nonprofit does not issue stock or pay dividends, (for example, The Code of the Commonwealth of Virginia includes the Non-Stock Corporation Act that is used to incorporate nonprofit entities) and may not enrich its directors. However, like for-profit corporations, nonprofits may still have employees and can compensate their directors within reasonable bounds.

The two major types of nonprofit organization structure are membership and board-only. A membership organization elects the board and has regular meetings and power to amend the bylaws. A board-only organization typically has a self-selected board, and a membership whose powers are limited to those delegated to it by the board. A board-only organization's bylaws may even state the organization has no membership, although the organization's literature may refer to its donors as "members"; examples of such structures are Fairvote^{[4][5]} and the National Organization for the Reform of Marijuana Laws.^[6] The Model Nonprofit Corporation Act imposes many complexities and requirements on membership decision-making. Accordingly, many organizations, such as the American Society of Association Executives^[7] and Wikimedia,^[8] have formed board-only structures. The National Association of Parliamentarians has raised concerns about the implications of this trend for the future of openness, accountability, and understanding of grassroots concerns in nonprofit organizations. Specifically, they note that nonprofit organizations, unlike business corporations, are not subject to market discipline for products and shareholder discipline over their capital; therefore, without membership control of major decisions such as election of the board, there are few inherent safeguards against abuse.^{[9] [10]} A rebuttal to this might be that as nonprofit organizations grow and seek larger donations, the level of scrutiny rises, including expectations of audited financial statements.^[11]

Tax exemption

In many countries, nonprofits may apply for tax exempt status, so that the organization itself may be exempt from income tax and other taxes. In the United States, to be exempt from federal income taxes the organization must meet the requirements set forth by the Internal Revenue Service.^[12]

United States

For a United States analysis of this issue, see 501(c) and Charitable organization#United States.

After a recognized type of legal entity has been formed at the state level, it is customary for the nonprofit organization to seek tax exempt status with respect to its income tax obligations. That is typically done by applying to the Internal Revenue Service (IRS), although statutory exemptions exist for limited types of nonprofit organizations. The IRS, after reviewing the application to ensure the organization meets the conditions to be recognized as a tax exempt organization (such as the purpose, limitations on spending, and internal safeguards for a charity), may issue an authorization letter to the nonprofit granting it tax exempt status for income tax payment, filing, and deductibility purposes. The exemption does not apply to other Federal taxes such as employment taxes. Additionally, a tax-exempt organization must pay federal tax on income that is unrelated to their exempt purpose.^[13] Failure to maintain operations in conformity to the laws may result in an organization losing its tax exempt status.

Individual states and localities offer nonprofits exemptions from other taxes such as sales tax or property tax. Federal tax-exempt status does not guarantee exemption from state and local taxes. These exemptions generally have separate application processes and their requirements may differ from the IRS requirements. Furthermore, even a tax exempt organization may be required to file annual financial reports (IRS Form 990) at the state and federal level.

Canada

In Canada, NPOs may be formed at either the federal or provincial levels. Charities must generally be registered with the Canada Revenue Agency and may issue tax receipts for donations.

India

In India, NPOs are commonly known as Non-Governmental Organizations (NGOs).

They can be registered in four ways, viz. 1. Trust 2. Society 3. Section-25 Company 4. Special Licensing.

Registration can be done with the Registrar of Companies(RoC).

The following laws or Constitutional Articles of the Republic of India are relevant to the NGOs:

- Articles 19(1)(c) and 30 of the Constitution of India
- Income Tax Act, 1961
- Public Trusts Acts of various states
- Societies Registration Act, 1860
- Section 25 of the Indian Companies Act, 1956
- Foreign Contribution (Regulation) Act, 1976

South Africa

- Tax

In South Africa, charities issue a tax certificate when requested by donors which can be used as a tax deduction by the donor^[14].

United Kingdom

In the UK, many non-profit companies are incorporated as a company limited by guarantee. This means that the company doesn't have shares or shareholders, but it has the benefits of corporate status. This includes limited liability for its members and being able to enter into contracts and purchase property in its own name. The goals ("objects") of the company are defined in the Memorandum of Association when the company is formed. The profits of the company (also referred to as the trading surplus) must be invested in achieving these goals and not distributed to the company's members.^[15]

Alternatively, non-profit companies may be formed as a Community Interest Company. This is in many ways similar to a Limited Liability Company, but is intended specifically to ensure that the profits and assets of the company are used for public good.

A charity is a non-profit organisation that meets stricter criteria regarding its purpose and the way in which it makes decisions and reports its finances.^[16] For example, a charity is generally not allowed to pay its Trustees. In England and Wales, charities may be registered with the Charity Commission.^[17] In Scotland, the Office of the Scottish Charity Regulator serves the same function. Other organizations which are classified as non-profit organizations elsewhere, such as trade unions, are subject to separate regulations, and are not regarded as "charities" in the technical sense.

Issues faced by NPOs

Capacity building is an ongoing problem faced by NPOs for a number of reasons. Most rely on external funding (government funds, grants from charitable foundations, direct donations) to maintain their operations and changes in these sources of revenue may influence the reliability or predictability with which the organization can hire and retain staff, sustain facilities, or create programs. In addition, unreliable funding, long hours and low pay can lead to employee burnout and high rates of turnover.

Founder's syndrome is an issue organizations face as they grow. Dynamic founders with a strong vision of how to operate the project try to retain control over the organization, even as new employees or volunteers want to expand the project's scope and try new things.

Examples

In the United States, two of the wealthiest non-profit organizations are the Bill and Melinda Gates Foundation, which has an endowment of \$38 billion,^[18] and the Howard Hughes Medical Institute, which has an endowment of approximately \$14.8 billion. Outside the United States, another large NPO is the British Wellcome Trust, which is a "charity" in British usage. See: List of wealthiest foundations. Note that this assessment excludes universities, at least a few of which have assets in the tens of billions of dollars. For example; List of U.S. colleges and universities by endowment

Measuring an NPO by its monetary size has obvious limitations, as the power and significance of NPOs are defined by more qualitative measurements such as effectiveness at carrying out charitable mission and goals.

Some NPOs which are particularly well known, often for the charitable or social nature of their activities conducted over a long period of time, include Amnesty International, the Better Business Bureau, Oxfam, Carnegie Corporation of New York, DEMIRA Deutsche Minenräumer (German Mine Clearers), Goodwill Industries, United Way, Habitat for Humanity, Teach For America, the Red Cross and Red Crescent organizations, UNESCO, IEEE, World Wide Fund for Nature, Heifer International, and SOS Children's Villages.

However, there are also millions of smaller NPOs that provide social services and relief efforts on a more focused level (such as Crosswind — Community Outreach Ministry and Literacy Center West) to people throughout the world. There are more than 1.6 million NPOs in the United States alone.

On the Internet

Many NPOs often use the .org or .us (or the CCTLD of their respective country) or .edu top-level domain (TLD) when selecting a domain name to differentiate themselves from more commercially focused entities which typically use the .com space.

In the traditional domain categories as noted in RFC 1591 (<http://tools.ietf.org/html/rfc1591>), .org is for "organizations that didn't fit anywhere else" in the naming system, which implies that it is the proper category for non-commercial organizations if they are not governmental, educational, or one of the other types with a specific TLD. It is not specifically designated for charitable organizations or any specific organizational or tax-law status, however; it encompasses anything that does not fall into another category. Currently, no restrictions are enforced on registration of .com or .org, so you can find organizations of all sorts in either of these domains, as well as other top-level domains including newer, more-specific ones which may fit particular sorts of organizations such as .museum for museums or .coop for cooperatives. Organizations might also register under the appropriate country code top-level domain for their country.

Other terminology for the sector

There is a growing movement within the “non”-profit and “non”-government sector to define itself using more proactive wording. Instead of being defined by “non” words, organizations are suggesting new terminology to describe the sector. The term “civil society organization” (CSO) has been used by a growing number of organizations, such as the Center for the Study of Global Governance.^[19] The term “citizen sector organization” (CSO) has also been advocated to describe the sector — as one of citizens, for citizens — by organizations such as Ashoka: Innovators for the Public.^[20] This labels and positions the sector as its own entity, without relying on language used for the government or business sectors. However, use of terminology by a nonprofit of self-descriptive language such as “public service organization” or other term that is not legally compliant risks confusing the public about nonprofit abilities, capabilities and limitations.^[21]

See also

- Association without lucrative purpose
- Community Organizations
- Fundraising
- Master of Nonprofit Organizations
- Mutual organization
- Non-commercial
- Non-governmental organization (NGO)
- Non-profit organizations and access to public information
- Non-profit sector
- Nonprofit technology
- Occupational safety and health
- Social economy
- Supporting organization (charity)
- United States of America non-profit laws
- Category:Non-profit organizations

References

1. ^ The International Center for Not-For-Profit Law. FAQ: What is the difference between "non-profit" and "not-for-profit"? (<http://www.icnl.org/contact/faq.htm#difference>).
2. ^ <http://www.irs.gov/pub/irs-pdf/p4220.pdf>
3. ^ Drucker, Peter (1989). "What Business Can Learn from Nonprofits". *Harvard Business Review*: 1-7
4. ^ FairVote - Board of Directors (<http://www.fairvote.org/?page=6>)
5. ^ FairVote - FAQs (<http://www.fairvote.org/?page=168>)
6. ^ NORML Board of Directors - NORML (http://norml.org/index.cfm?Group_ID=3416)
7. ^ American Society of Association Executives Bylaws - About Us - ASAE & The Center for Association Leadership (<http://www.asaecenter.org/AboutUs/content.cfm?ItemNumber=16005>)
8. ^ http://wikimediafoundation.org/wiki/Wikimedia_Foundation_bylaws#ARTICLE_III_-_MEMBERSHIP
9. ^ Malamut, Michael E. and Blach, Thomas J. (2008), *ABA Code Revision Raises Concerns for Democracy and Parliamentary Law in Nonprofits*, *National Parliamentarian*, Volume 69, No. 1
10. ^ *Charity on Trial: What You Need to Know Before You Give* / Doug White (2007) ISBN 1-56980-301-3
11. ^ SSRN-Voluntary Disclosure in Nonprofit Organizations: an Exploratory Study by Bruce Behn, Delwyn DeVries, Jing Lin (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=727363)
12. ^ <http://www.irs.gov/charities/article/0,,id=136195,00.html>
13. ^ "Special rules for unrelated business income tax (<http://www.irs.gov/charities/article/0,,id=96106,00.html>)". U.S. Internal Revenue Service. <http://www.irs.gov/charities/article/0,,id=96106,00.html>. Retrieved 2007-08-19.

14. ^ South African Charities (<http://www.breadlineafrica.org/faq/index.html>)
 15. ^ [<http://www.sfsgo.com/guaranteecompany.asp> "Company Limited by Guarantee", Small Firms Services Ltd.
 16. ^ "What is the Not For Profit Sector?", Charity People (<http://www.charitypeople.com/documents/WhatIsTheNotForProfitSector.pdf>)
 17. ^ Charity Commissioners information page (<http://www.charity-commission.gov.uk/registration/regreq.asp#a>)
 18. ^ <http://www.gatesfoundation.org/nr/public/media/annualreports/annualreport07/AR2007Statements.html>
 19. ^ :Glasius, Marlies, Mary Kaldor and Helmut Anheier (eds.) "Global Civil Society 2006/7" (<http://www.lse.ac.uk/Depts/global/yearbook06-7.htm>). London: Sage, 2005.
 20. ^ Drayton, W: "Words Matter" (<http://www.alliancemagazine.org/free/html/jun07a.html>). Alliance Magazine, Vol. 12/No.2, June 2007
 21. ^ Alvarado, Elliott I.: "Nonprofit or Not-for-profit -- Which Are You?", page 6-7. Nonprofit World, Volume 18, Number 6, November/December 2000
- P. Hartigan, 2006, 'It's about people, not profits', 'Business Strategy Review' winter 2006
 - Drucker, Peter (1989). "What Business Can Learn from Nonprofits". *Harvard Business Review*: 1-7.

External links

- Idealist.org FAQ's on NonProfit (<http://www.idealist.org/if/idealist/en/FAQ/Nonprofit/Home/default>)
- USA, IRS Website regarding NonProfits (<http://www.irs.gov/charities/index.html>)
- SNPO - Management Support and Information for Nonprofit Organizations (<http://www.snpo.org/index.php>)
- Urban Institute's Center on Nonprofits & Philanthropy (<http://www.urban.org/center/cnp/index.cfm>)
- ActiveCause Free Nonprofit and Corporate Philanthropy Research for Consumers (<http://activecause.com/>)
- Official US Government Site for Nonprofits - Grants, Management and Tax information (<http://nonprofit.gov/>)

Retrieved from "http://en.wikipedia.org/wiki/Non-profit_organization"

Categories: Non-profit organizations | Types of organization

- This page was last modified on 15 October 2009 at 00:46.
 - Text is available under the Creative Commons Attribution-ShareAlike License; additional terms may apply. See Terms of Use for details.
- Wikipedia® is a registered trademark of the Wikimedia Foundation, Inc., a non-profit organization.

[About Us](#) | [Contact Us](#) | [Español](#) | [Français](#) | [Resources](#) | [Help](#)

[Post](#) | [Find](#) | [Spread Idealist](#) | [Groups](#)

- [Post](#)
- [Find](#)

The Nonprofit FAQ > Organization >

Types of Nonprofits

[Job](#)
[Program](#)
[Volunteer Opportunity](#)
[Event](#)
[Internship](#)
[Materials](#)
[Campaign](#)
[Pro-bono Design Project](#)

[Jobs \(4,564\)](#)
[Volunteer opportunities \(18,516\)](#)
[Organizations \(90,336\)](#)
[Idealist Groups \(1,802\)](#)
[Consultants \(468\)](#)
[Internships \(2,120\)](#)
[Programs \(2,294\)](#)
[People \(213,264\)](#)
[Volunteers \(88,917\)](#)
[Materials \(8,159\)](#)
[Speakers \(7,799\)](#)
[Events \(949\)](#)
[Campaigns \(796\)](#)
[Nonprofit FAQ](#)

The Blog

[Blog Action Day 2009](#)
[Free Live Webcast This Afternoon: "Connecting Intention to Action. Connecting Action to Career"](#)
[Tune in for Perspectives on Nonprofit Work](#)

Are there statistics about nonprofits online?

Summary:

The National Center for Charitable Statistics offers quite a lot of statistical information at its website and provides access to detailed 990 data for researchers who pay small fees. There are other sources as well.

Answer:

The National Center for Charitable Statistics (NCCS) is located at the Urban Institute in Washington, DC. The website with general information is <http://nccs.urban.org>.

NCCS and Guidestar (<http://www.guidestar.org>) cooperate to make the information from Form 990 more readily accessible.

Guidestar's website is useful for getting details about any organization that files a Form 990. (For information about the Form 990, see <http://www.nonprofits.org/npofaq/19/06.html>.)

NCCS provides some summary statistics on its website through <http://nccsdataweb.urban.org/faq/index.php?category=44> Some tables are already prepared and available by from the menu. National and state-by-state tallies of income, assets, and a few other key variables, including details by county and by NTEE (purpose) codes for several time periods are also easy to construct using the "Table Wizard."

The NCCS page has links to other sources of statistical information about nonprofits as well.

NCCS makes the same information available in a form that is useful to researchers. The large datasets of detailed 990 reports can be accessed (for a fee) to permit detailed analysis and exploration of research questions.

The Johns Hopkins Comparative Nonprofit Sector Project offers a quick overview of its findings in 26 countries: <http://www.jhu.edu/~cnp/pdf/glance.pdf>

Posted 1/6/05 -- PB