BoardEffect

MAINTAINING 501(C)(3) STATUS:

6 Things to Watch Out For

1. Private benefit

Organizations that apply for tax-exempt status must fit one of the applicable purposes for a nonprofit organization. Corporations may not have intent to profit, so they can't privately benefit any person or entity. A nonprofit can employ people for pay as long as the organization itself doesn't make an overall profit.

2. Nonprofits are not allowed to urge their members to support or oppose legislation

They may participate in a small amount of lobbying, but lobbying activities may not exceed a certain amount of the organization's total expenses.

3. Political campaign activity

A nonprofit organization may not financially support or endorse any political candidates verbally or in writing. They may not oppose candidates either. This rule applies to candidates at every level — local, state and federal.

4. Unrelated business income

Nonprofit organizations aren't allowed to generate too much income from a purpose that is unrelated to the nonprofit. An organization that regularly operates a trade or business that is unrelated to the nonprofit and makes significant contributions to the organization would need to pay taxes.

5. Annual reporting obligation

Nonprofit corporations still have reporting responsibilities, like the Form 990. They may also be responsible for things like tax on unrelated income, employment tax, excise taxes, and certain state or local taxes. Churches and other church-related organizations don't need to report income.

6. Operate in accord with stated nonprofit purposes

An organization that makes a big shift from being unprofitable to making money needs to re-file as a for-profit entity and to pay the applicable taxes.