

WHAT IS A NON PROFIT CORPORATION?



Lotzar Law Firm, PC



A nonprofit corporation is an organization that is created for a purpose other than earning a profit for its owners and shareholders. Instead of desiring to generate profit like most businesses, the goal of a nonprofit is to serve the public good in some way. Nonprofits carry out many important tasks in society and fulfill many different roles that help the public. These types of organizations are entitled to favorable tax treatment and other benefits because of the service they provide.

There is a specific legal process associated with the formation of a nonprofit corporation and there are certain ongoing requirements that the organization must meet. A business and corporate lawyer who has experience with nonprofit

organizations should be consulted for assistance starting a nonprofit and for help answering questions about laws related to nonprofit operation.

PURPOSES OF A NONPROFIT



Unlike most corporate entities, a nonprofit is not intended to earn income; however, nonprofits can take in donations and receive other funding including money from sales of products or services provided. The funds that a nonprofit organization receives must be used to further the mission of the organization.

Nonprofits must have a specific organizational purpose designed to benefit society or the public good. For example, a nonprofit may be formed:

- To do charitable work.
- To provide educational services or for a literary or scientific purpose.
- To work in service of a religion or religious organization.

A nonprofit must have an organizational statement or chartering document that outlines the goals of the organization to provide some type of service for the greater good.

BENEFITS OF FORMING A NONPROFIT ORGANIZATION

Because society derives a benefit from the operation of a nonprofit, a nonprofit corporate organization is entitled to an exemption from standard corporate income taxes. The federal tax exemption is available for all profits from activities that are directly related to the purpose of the nonprofit corporate entity.

In addition to being tax exempt, nonprofits are also permitted to raise funds from both public and private grant money as well as from charitable contributions. The charitable contributions can come from individuals or from corporations and the tax code allows the donors to deduct the donated funds

on their own individual tax returns. This encourages charitable donations, especially among wealthy benefactors.



While most organizations seek nonprofit status primarily because of the tax benefits, there are also other advantages for nonprofit corporations as well. Because these organizations are structured as corporations, directors, officers and

members are protected from becoming personally liable for the debts and liabilities of the corporation.

HOW TO FORM A NONPROFIT CORPORATION

When forming a nonprofit corporation, the first step is to incorporate the business. This initial step is done in the same way as any other business incorporates. Articles of Incorporation must be filed in the state where the organization will operate and filing fees must be paid. The Articles of Incorporation must contain the name and contact details of the organization as well as the names and addresses of a registered agent and initial directors.

Once a corporation has been created, a board of directors must be elected and a meeting of the board must be held. This step must be undertaken before the business entity moves forward with the process of becoming recognized as a nonprofit.

The next step is applying for federal and state tax exemption. This is the step of the corporate formation where you alert the Internal Revenue Service and other taxing authorities to the intent to operate as a nonprofit with favorable tax treatment. There are different sections of the Internal Revenue Code that could allow an organization to enjoy tax-exempt status. Most organizations that operate as nonprofits are classified as 501(c)(3) organizations.



The form for obtaining 501(c) status or otherwise alerting the IRS to the intent to operate as a nonprofit can be complicated to successfully complete. A Form 1023 tax exemption application, corporate bylaws and other corporate guidelines must be submitted to the IRS for consideration to determine whether the organization should be tax exempt or not.

When the corporation has been formed and tax exempt status has been granted, the organization must continue to follow required annual paperwork

and must continue to remain in compliance with IRS rules to maintain its status.

An experienced corporate law professional can help an organization to determine if it should qualify for nonprofit status and can assist with all required paperwork and filings. Call an attorney for help starting an organization today.

About the Author

Lotzar Law Firm, P.C. was founded in 2005, and serves clients throughout the U.S. We pride ourselves on the level of service we provide our clients and are determined to see each project through to positive results.

In addition to bringing a legal expertise to the table, we offer clients sound ideas and invaluable advice that enhances their business. One of our greatest attributes is our ability to approach projects from a business-owner perspective. Rather than narrowing in on the setbacks of a challenge and informing clients of what stands in the way, we prefer to seek innovative ways to transcend issues and create a better path for clients. With an unparalleled savvy in developing modern methods of financing, we can present you with viable and efficient options.

Our diversified portfolio of clients is comprised of entrepreneurs, real estate developers, contractors and property managers. We also do business with numerous nonprofit clients including Chicanos Por La Causa, Inc.; Tiempo, Inc.; and The Industrial Development Authority of the City of Tucson, Arizona.

We work in a team-based environment, supported by a skilled and caring staff, eager to answer your questions and provide you with consistent access to your team. Whether your needs are small or large in scope, we look forward to working with you.

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