

Five Reasons to Incorporate Your Nonprofit Association

Not sure whether to incorporate your nonprofit? Here's some information to help you decide.

If you're involved in a fledgling nonprofit organization, you and the other folks active in the group have probably wondered whether or not you should incorporate. Becoming a nonprofit corporation requires some paperwork, but for many groups, the benefits of nonprofit status outweigh the complications. Here are five circumstances that may make it worth your while to incorporate.

Your Association Makes a Profit From Its Activities

If your group will make a profit from its activities, becoming a nonprofit corporation can yield a great benefit: As long as the money you make is related to your charitable activities, your nonprofit corporation won't pay income tax on it.

Example

Better Books and Learning begins as a part-time effort by a few dedicated individuals to hold book groups for disadvantaged youth. The volunteers pay all of the expenses out of their own pockets, and the group never turns a profit. Then a board member of a local junior college asks the group to administer and run book groups as part of the college curriculum -- for a fee. Since the group will now show a profit from its educational activities, it decides to incorporate as a nonprofit and seek tax-exempt status with the IRS.

For more information on whether income is "related" to your group's activities, and thus not taxable.

You Want to Apply for Public or Private Grant Money

Without tax-exempt status, your group is unlikely to qualify for many public and private grants. While you can form a nonprofit, tax-exempt association, rather than a corporation, qualifying for a tax exemption as an association is harder -- it requires preparing and adopting a complicated set of organizational papers and operating rules. Further, it's generally easier to get the IRS to approve a tax exemption for a nonprofit corporation.


You Want to Solicit Tax-Deductible Contributions

If your organization becomes a tax-exempt nonprofit corporation, donors can deduct their gifts to your group on their federal and state tax income returns.

Example

For Shore United wants to sponsor monthly cleanup drives to pick up and haul away trash left along the local bay shore. They've enlisted a sufficient number of enthusiastic volunteers, but they need funds to rent a truck, buy gas, and pay for volunteers' meals. They know that many people in the community would chip in to help fund their effort if their group was a recognized public charity eligible to receive tax-deductible contributions. Incorporating the group as a nonprofit corporation and applying for tax-exempt status can help them raise these much-needed funds.

You Want Protection From Personal Liability for the Group's Activities

 As a director of a nonprofit, can I be held personally liable?

If your group finds itself the target of a lawsuit, incorporation can provide welcome peace of mind. Nonprofit corporations can be sued -- but their members and directors are generally protected from personal liability, meaning that their own money, houses, cars, or other property isn't at risk. That's not true of an unincorporated association.

[more >](#)

Example

Engineers for the Environment is a nonprofit consulting firm that helps developers prepare environmental impact reports for nonprofit housing developments. To avoid legal liability if unforeseen federal and state guidelines cause costly delays, the firm decides to incorporate their organization as a nonprofit.

Your Advocacy Efforts Might Provoke Legal Quarrels

Although nonprofits may engage only in very limited political advocacy (unless they elect to follow special federal lobbying rules), advocacy efforts may occasionally draw a nonprofit into an unwanted lawsuit. Incorporating can support directors and officers in defending the lawsuits and protect them from personal liability.

Example

Citizens for a Smoke-Free America informs the public about the health hazards of secondary smoke from cigarettes. The group decides to

campaign for local legislation banning cigarette advertising on billboards in the community. It expects an unfriendly response from cigarette advertisers in the form of expensive and time-consuming lawsuits against the organization, and its directors and officers. The group decides to incorporate before beginning the campaign, to allow the corporation to pay the officers' and directors' legal expenses, and to insulate the directors and officers from personal liability.

Additional Benefits of Organizing a Nonprofit

Although these aren't the main reasons people form nonprofit corporations, nonprofits can take advantage of other benefits, including:

- **Special postage rates.** Nonprofits can apply for and receive a mailing permit that gives them a special reduced nonprofit rate for mailings. This is especially helpful for organizations that will do a lot of solicitation by mail.
- **Property tax exemptions.** In addition to an exemption from income taxes, nonprofits are usually exempt from paying property taxes on real estate and other property. Contact your county assessor's office for more information on this property tax exemption, which is called a "welfare exemption."

NOTE:

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