



THE MAGIC OF NONPROFITS

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As a former dance instructor, I could offer my talent and time to less fortunate children who could not otherwise afford the high cost of private instruction. With donations from organizations within the community, I believe I could offer private instruction for about 1/3 the cost of other dance schools. How would I organize a nonprofit, and what are the limitations on income?

Whether you are starting a dance school, art school or any other type of service exclusively for the benefit of children, adults, disabled, disadvantaged, animals or other descript segment of the general public, anyone can start a non-profit, and compensation is allowed. The magic of nonprofits is that they create something beautiful and worthwhile in our society and provide the less fortunate with something good and affordable through contributions from others without taking advantage of them by capitalizing on profit.

A nonprofit or “not-for-profit” organization is a corporation or an association established to conduct business for the benefit of an issue or matter of private or public interest without an interest to generate profit. However, a nonprofit organization may accept, hold and disburse money and other things of value. Nonprofits are typically funded by donations from the private or public sector, and often have tax exempt status. Nonprofits may charge money for their services, and contributions to tax-exempt nonprofit organizations are usually tax deductible.

Nonprofit organizations often are charities or service organizations sometimes called foundations. Most foundations give out grants to other nonprofit organizations, or fellowships to individuals. Nonprofit corporations are created by incorporating in the state in which they intend to do business and must create articles of incorporation with a statement of corporate purpose, conduct regular meetings and fulfill other obligations to achieve and maintain corporate status.

Nonprofits can have members who elect the Board of Directors, Board of Governors or Board of Trustees. Or, it may be a non-membership organization, and the board of directors may elect its own successors. Unlike a

for-profit corporation, a nonprofit does not issue stock or pay dividends. However, like for-profit corporations, nonprofits may still have employees and may pay reasonable compensation to their directors. 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.

Every exempt charitable organization is classified as either a public charity or a private foundation. They are distinguishable primarily by the level of public involvement in their activities. Generally, organizations that are classified as public charities engage in fundraising and receive contributions from many sources including the general public, governmental agencies, corporations, private foundations and more.

By contrast, private foundations typically have a single major source of funding, usually gifts from one family or corporation rather than funding from many sources. Many offer grants to other charitable organizations and to individuals, rather than operate charitable programs.

Nonprofit corporations are exempt from corporate income tax, provided they conduct business exclusively for the general public’s benefit. Each state and locality offers nonprofits exemptions from taxes such as sales tax or property tax. The Internal Revenue Service must approve the tax-exempt status of all nonprofit organizations except churches.

The rules and regulations for setting up a non-profit are more complex than a for-profit organization. Therefore, if you decide to create some magic and set up a nonprofit organization, seek the advice of a legal professional experienced in forming nonprofits to ensure that it complies with all state and federal requirements. ■

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