



501(c)(3) Prohibited Activities

*Learn More*



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# *A positive thought*

“Be patient with yourself. Self-growth is tender; it’s holy ground. There’s no greater investment.”

Stephen Covey

# Today's Discussion:

## **Understand**

- Nonprofit vs Tax-Exempt
- Defining the IRS 501c3
- Charitable vs Exempt Purposes
- Revenue Sources

## **Avoid**

- Private Benefit & Inurement
- Political Campaigning
- Lobbying
- Unrelated Business Income Tax

## **Comply**

- IRS 990

# *Disclaimer*

This information is not inclusive of every possible IRS prohibited activity concerning the 501(c)(3) tax status, nor is it intended to provide legal or accounting advice, or to address specific situations. Please consult with your legal or tax advisor to supplement and verify what you learn here.

Alternatively, you may visit the IRS.gov website for “Educational Resources and Guidance for Exempt Organizations.

<https://www.irs.gov/charities-non-profits/educational-resources-and-guidance-for-exempt-organizations>

# Nonprofit vs Tax-Exempt

**Nonprofit** status under state law.

- Organized for a public or mutual benefit other than generating profit for owners or investors.

**Tax-Exempt** refers to federal income tax exemption under the Internal Revenue C

- 35 types of tax-exempt organizations.
- **The 501(c)(3)** – tax exemption and tax deductibility of donations.



# Charitable vs Tax Exempt

## Charitable

- This is an IRS Classification. There are two main types: Public Charity and Private Foundation.

## Exempt Purposes

- Charitable
- Religious
- Educational
- Scientific
- Literary
- Testing for public safety
- Fostering national or international amateur sports competition
- Preventing cruelty to children or animals.



# Revenue Sources



## **Earned Income**

- Fee for services

## **Investment Income**

- Interest, dividends, capital gains

## **Contributions**

- Disqualified person
- Substantial contributor
- Family members
- General public
- Governmental unit
- Other Charities



# Prohibited Activities

1. Private Benefit
2. Inurement
3. Political Campaigning
4. Unrelated Business Income



# Private Benefit and Inurement

## Private Benefit

- Private benefit occurs when an individual or organization receives a benefit—monetary or nonmonetary—from a 501(c)(3) organization.
- It is allowable when it is insubstantial or incidental to the main service being provided.

## Inurement

- When an individual who has significant influence over the organization enters an arrangement with the nonprofit and receives benefits greater than he or she provides in return.
- Never Allowed.



# Political Campaigning & Lobbying

## Political Campaigning

- Taking a stand in any political campaign; supporting or opposing a political candidate.
- Never allowed.



## Lobbying

- Contacting or urging the public to contact members of legislative bodies for the purpose of proposing, supporting, or opposing legislation.
- Lobbying allowed (when insubstantial).

# Unrelated Business Income Tax

## **Unrelated Business Income Tax (UBIT)**

- Income from a regularly-carried-on trade or business that is not substantially related to the organization's exempt purpose.



# IRS Annual Filing Requirement

## **IRS 990**

The annual information return required to be filed with the IRS by most tax-exempt organizations.



# IRS Form 990

## Required Filings - Form 990 Options

The image displays three versions of the IRS Form 990, all for the year 2011. The top form is the standard Form 990, 'Return of Organization Exempt From Income Tax', with OMB No. 1545-0047. The middle form is Form 990-EZ, 'Short Form Return of Organization Exempt From Income Tax', with OMB No. 1545-1150. The bottom form is Form 990-N, 'Electronic Notice (e-Postcard)', with OMB No. 1545-2093. Each form includes a '2011 Open to Public Inspection' stamp. The forms are partially filled out with sample information, including the organization's name, address, and EIN.

## IRS 990

Public charities have 3 possible tax filing requirements – based on annual revenue:

- Form 990 ( > \$200,000)
- Form 990-EZ (\$50,000 – \$200,000)
- Form 990-N e-postcard ( < \$50,000)

# IRS Form 990 T

The image shows three overlapping IRS Form 990-T tax return forms for the years 2010, 2011, and 2012. The forms are titled "Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))". The 2010 form is at the top, the 2011 form is in the middle, and the 2012 form is at the bottom. The 2012 form is partially filled out with blue ink. The forms are from the Department of the Treasury, Internal Revenue Service. The 2012 form includes a "Print or Type" section with fields for Name of organization, Number, street, and room or suite no., and City or town, state, and ZIP code. It also includes a "Check organization type" section with checkboxes for 501(c) corporation, 501(c) trust, 401(a) trust, and Other trust.

**Form 990-T** | Exempt Organization Business Income Tax Return  
(and proxy tax under section 6033(e))  
For calendar year 2010, or other tax year beginning , 2010, and  
OMB No. 1545-0047  
**2010**

**Form 990-T** | Exempt Organization Business Income Tax Return  
(and proxy tax under section 6033(e))  
For calendar year 2011, or other tax year beginning , 2011, and  
OMB No. 1545-0047  
**2011**

**Form 990-T** | Exempt Organization Business Income Tax Return  
(and proxy tax under section 6033(e))  
For calendar year 2012, or other tax year beginning , 2012, and  
OMB No. 1545-0047  
**2012**  
Open to Public Inspection for 501(c)(3) Organizations Only

Department of the Treasury  
Internal Revenue Service

**A** Check box if address changed

**B** Exempt under section  
☐ 501(c)(1) ☐ 501(c)(2)  
☐ 501(c)(3) ☐ 501(c)(4)  
☐ 501(c)(6) ☐ 501(c)(29)

**C** Book value of all assets at end of year

**D** Employer identification number (Employees' trust, see instructions.)

**E** Unrelated business activity codes (see instructions.)

**F** Group exemption number (see instructions.)

**G** Check organization type: ☐ 501(c) corporation ☐ 501(c) trust ☐ 401(a) trust ☐ Other trust

## The 990 T

Exempt organizations use to this form to report unrelated business income, figure and report unrelated business income tax liability.

# Invest in “You” with training!

- **Legal Terms ALL 501c3 Organizations Must Know**

- Board Roles
- Board Responsibilities
- Nonprofit Budgets
- Starting A Nonprofit
- 21 Ways to Fund a Nonprofit
- Nonprofit Essentials 101
- Board Roles & Responsibilities
- The Art of Grant Writing
- Measuring What Matters
- Becoming Grant-Ready
- What Great Nonprofits Do to Succeed!





Join Us!



## Community Heroes

*We help people that help people!*



## *Final thought*

“The only thing that endures over time is the Law of the Farm. You must prepare the ground, plant the seed, cultivate, and water it if you expect to reap the harvest.”

Stephen Covey



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