


501(c)(3) Prohibited Activities

1

Learn More




2

A positive thought

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

Stephen Covey

3

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

4

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>

5

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.



6

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.

7

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

8

Prohibited Activities

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



9

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.



10

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).

11

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.



12

IRS Annual Filing Requirement

IRS 990

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



13

IRS Form 990

Required Filings - Form 990 Options



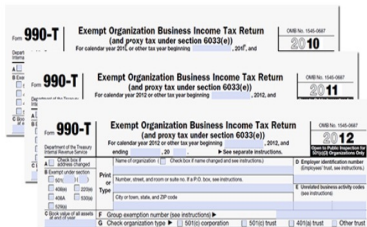
IRS 990

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)

14

IRS Form 990 T



The 990 T

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

15

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!



16

Join Us!



Community Heroes

We help people that help people!



17

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

18



Cheryl Smith
Dewlyn Nonprofit Services
csmith@Dewlyn.com
800-446-0323
www.Dewlyn.com

Copyright 2020
All rights reserved. No part of this Board Development PowerPoint training may be used or copied in whole or in part without the expressed written consent of Dewlyn LLC.
