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REMEMBER TO WALK BEFORE YOU RUN

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Owner, Glenn and Associates, LLC

What's a 501(c)?

- A 501(c)3 exemption is the most popular type tax exemption - 74% of all 501(c)s.
- There are twenty-eight other types 501(c) eligible groups.
- Only two can solicit donations as tax-deductible.
- 501(c)4 exemption is the most popular type after the 501(c)3.
 - *Promote social welfare. Ex. volunteer fire stations or Rotary Clubs*
 - *Can lobby*
- 501(c)5: Labor, Agricultural and Horticultural Organizations
 - *Unions like Teamsters, Unite Here*
- 501(c)6: Business Leagues, Chambers of Commerce, Real Estate Boards, etc
- 501(c)7: Social and Recreational Clubs
- 501(c)8: Fraternal Beneficiary Societies and Associations

501(c)(3) DEFINITION

- To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for **exempt purposes**
- **none of its earnings may inure to any private shareholder or individual.**
- In addition, it may not be an **action organization**, i.e., it may not attempt to influence legislation as a **substantial part** of its activities and
- **it may not participate in any campaign activity** for or against political candidates.

Steps To 501(c)(3) Formation

- Establish a non profit corporation with Secretary of State's office.
- Obtain federal tax ID number from IRS
- Draft bylaws and board governance documents
- Apply for 501(c)(3) status via IRS 1023 form
 - *Governing board of directors*
 - *Potential conflicts of interest*
 - *Statement of charitable purpose*
 - *Budgets*
 - *Description of programs and impact*
- Apply for applicable tax exemptions

Critical Components of a Non Profit

- Executive
 - *Mission/Vision/Values*
 - *Administrative*
 - *Board and Staff management*
 - *Marketing and Communications*
- Programmatic
 - *Mission/Vision/Values*
 - *Direct Services*
 - *Policy Work*
- Fundraising
 - *Mission/Vision/Values*
 - *Generate revenue*

501(c)(3) REVENUE STREAMS

- Annual Giving
- Major Gifts
- Corporate Sponsorships
- Grants
- Special Event Revenue
- Memberships
- Bequests/Planned Giving
- Unrelated Business Income





Policy **impacts your organization** and clients directly and indirectly

Helps meet your mission
Creates roadblocks to your success



Healthy communities only happen when **three sectors** work together

Government
Business
Non Profit



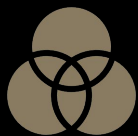
Providing services is not solving the **root problem**

Babies in the River

WHY
SHOULD
NON
PROFITS
ADVOCATE?



POLITICAL: 501(c)(3) organizations are **absolutely prohibited** from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office.



LEGISLATIVE: In general, no organization may qualify for section 501(c)(3) status if a **substantial part** of its activities is attempting to influence legislation (commonly known as lobbying).



Organizations may involve themselves in **issues of public policy** without the activity being considered as lobbying. Examples: educational meetings, distributing educational materials, etc.

POLITICAL VS LEGISLATIVE ACTION

HOW MUCH IS TOO MUCH?

Substantial Parts Test

- The IRS considers a variety of factors:
- **Time** devoted (by both compensated and volunteer workers) and
- **Expenditures** devoted by the organization to the activity.

Expenditure Test

- Sec. 501(h)

Expenditure Test - Sec. 501(h)

- Under the 501(h) expenditure test, nonprofits may spend:
- On Direct Lobbying:
 - *20% of the first \$500,000 of its exempt purpose expenditures;*
 - *15% of the next \$500,000, and so on, up to one million dollars a year.*
- On Grassroots Lobbying:
 - *5% of the first \$500,000 of its exempt purpose expenditures;*
 - *3.75% of the next \$500,000, and so on, up to \$250,000 a year.*

QUESTIONS????

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