

<https://www.nolo.com/legal-encyclopedia/protecting-nonprofit-corporation-tax-exempt-status-29895.html>

For most nonprofit corporations (like 501(3)(c) organizations), maintaining tax-exempt status is paramount. In order to do so, make sure your nonprofit complies with a few special rules. Here's what you need to know.

Organizational Structure: Who Must Play What Role

- Like any corporation, a nonprofit has a board of directors to make important policy decisions, officers (president, treasurer, and secretary) who primarily oversee and manage the day-to-day operations of the organization, and possibly employees to do the work.
- Unlike regular corporations, however, nonprofit corporations do not have shareholders or owners. (Nonprofits are owned by no one person or group of persons and cannot be sold. In the event the directors of a nonprofit want to dissolve the corporation, they must distribute all of its assets to another nonprofit corporation.)
- Although a nonprofit corporation can choose to have members who have voting rights, many nonprofit corporations decide not to adopt a membership structure and, in the interests of efficiency, (WAPI Chose this in 2018) leave the decision making up to the directors. If a nonprofit does opt for a membership structure, the members participate in major corporate decisions. Specifically, the members have the exclusive right to elect directors, amend articles and bylaws, and vote on a merger or dissolution of the corporation.

Corporate Records Requirements

- All nonprofit corporations must keep good corporate records. These records help to preserve directors limited personal liability and protect your organization's tax-exempt status. Good record keeping means preparing minutes of directors' and members' meetings and documenting important corporate decisions.

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- You'll want to organize these materials in a corporate records book, which should also contain a copy of your articles of incorporation, bylaws, and tax exemption determination letters from the IRS and your state tax agency, if applicable.
 - In addition to keeping records of important decisions, your nonprofit corporation must record any financial transactions in a double-entry bookkeeping system and keep other financial records in order to file an annual corporate tax return.

Limits on Nonprofit Activities

In addition to keeping corporate records, nonprofit corporations must follow some additional rules and abide by certain prohibitions in order to retain their tax-exempt status:

- Nonprofit corporations cannot contribute money to political campaigns. Nonprofit corporations with a 501(c)(3) tax exemption (the most common) are not allowed to participate in political campaigns or contribute money to them. If they do, the IRS can revoke their nonprofit status, and can assess a special excise tax against the organization and its managers.
- Nonprofit corporations can engage in only limited lobbying activities. Tax-exempt 501(c)(3) nonprofits that influence legislation to any "substantial degree" face the loss of their nonprofit status. However, for tax-exempt nonprofits that want to participate in lobbying, the IRS simply sets a limit on the money they can spend on political activities. For more information, see [How Much Lobbying Can a Nonprofit Do?](#)
- Nonprofit corporations must not distribute profits to members, officers, or directors. A nonprofit corporation cannot be organized to financially benefit its members, officers, or directors. However, reasonable salaries and expense reimbursements are permitted.
- Nonprofit corporations must pay taxes on income from "unrelated activities." Sometimes, a nonprofit organization will earn income through activities that aren't directly related to its nonprofit purpose; for example, the directors of an organization dedicated to preserving open space may collect a consulting fee for advising other nonprofits. The IRS requires nonprofits to pay corporate income taxes on such unrelated income over \$1,000, whether or not the group uses that money to fund its tax-exempt activities. For more information on unrelated activities,
- Nonprofit corporations cannot make substantial profits from unrelated activities. If a nonprofit spends too much time on unrelated activities, or if the unrelated activities generate "substantial" income, the group's nonprofit status may be jeopardized. Nonprofit corporations

that plan to engage in activities that aren't related to their tax-exempt purpose should consult a lawyer or tax expert with experience in nonprofit law. For more information on unrelated activities,

- When a nonprofit corporation dissolves, its assets must be distributed to another tax-exempt group. Since tax-exempt organizations and their assets cannot be owned, they can never be sold. If the directors of a nonprofit decide to disband the organization, they must donate its assets to another nonprofit group. This also means that once property goes into a nonprofit corporation, it cannot later be distributed to a member or director.