



Advantages and Disadvantages of Starting a Nonprofit Organization

Advantages of starting a nonprofit

1. Tax exemption/deduction. Organizations that qualify as public charities under Internal Revenue Code 501(c)3 are eligible for federal exemption from payment of corporate income tax. Once exempt from this tax, the nonprofit will usually be exempt from similar state and local taxes. Also, an individual's or company's charitable contribution to a 501(c)3 entity is tax-deductible.
2. Eligibility for public and private grants. Nonprofit organizations are allowed to solicit charitable donations from the public.
3. Formal structure. A nonprofit organization exists as a legal entity in its own right and separately from its founders. Incorporation puts the nonprofit's mission and structure above the personal interests of individuals associated with it.
4. Limited liability. Under the law, creditors and courts are limited to the assets of the nonprofit organization. The founders, directors, members, and employees are not personally liable for the nonprofit's debts, with some exceptions. One exception is that directors have a fiduciary responsibility so that if they do not perform their jobs in the nonprofit's best interests, and the nonprofit is harmed, they can be held liable.

Disadvantages of starting a nonprofit

1. Cost. Creating a nonprofit organization takes time, effort, and money. A nonprofit organization is a legal entity under federal, state and local laws and therefore the use of an attorney, accountant or other professional may prove necessary. Aside from legal or other consultant fees, applying for federal tax exemption can cost \$200 - \$850 or more, in addition to state fees for incorporation.
2. Paperwork. A nonprofit organization must keep detailed records and submit annual filings to the state and IRS by stated deadlines in order to keep its active and exempt status.
3. Shared control. Personal control in a nonprofit is limited. A nonprofit is subject to laws and regulations, including its own articles of incorporation and bylaws. In some states, a nonprofit is required to have several directors, who in turn are the only people allowed to elect or appoint the officers who determine policy.
4. Scrutiny by the public. A nonprofit is dedicated to the public interest and therefore, its finances are open to public inspection. The public may obtain copies of a nonprofit organization's state and federal filings to learn about salaries and other expenditures.

Note: Nonprofit Leadership Center of Tampa Bay does not provide tax or legal advice.

Please consult with your attorney or accountant or tax advisor for advice specific to your situation.