



Leadership in Nonprofit Organizations: A Reference Handbook

A Nonprofit Organization

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A Nonprofit Organization

A nonprofit organization

Nonprofit organizations are officially recognized in the U.S. tax code by their placement indicated as 501(c). The Nonprofit organizations designated as public charities carry the subcategory number 501(c)(3). These are organizations with the mission to improve the common good in areas such as education, the environment, health care, the arts, community development, assistance to individuals and families, and all of religious activity.

The Nonprofit sector is composed of all types of Nonprofit organizations, including small, unincorporated groups and associations with few members and little to no budget; large and formally incorporated organizations with hundreds of paid staff members, cadres of unpaid volunteers, and budgets exceeding millions of dollars; and those that fall somewhere in between. The number of Nonprofit organizations in the United States includes “1.8 million registered organizations and several million other associations, including support groups, book clubs, and neighborhood action committees” (O'Neill, 2002, p. xvii); estimates by the Independent Sector in 2005 put the number of registered organizations closer to 1.9 million (Swoboda & Swoboda, 2009, p. 3).

Currently, 956,760 public charities and 112,959 private foundations are registered with the Internal Revenue Service (IRS). In addition, 443,464 other types of Nonprofit organizations, such as chambers of commerce, fraternal organizations, and civic leagues, are also registered (The Urban Institute, 2008).

Characterizing the Nonprofit sector as a whole is a daunting proposition. “The easiest way to describe or define the Nonprofit sector is to identify what it is not [e.g., it is not government or business], and what it does not do [e.g., it does not distribute profits to owners or shareholders]” (Ott, 2001, p. 1). Exactly what it means to be part and parcel of something that is not or does not do makes providing a singular definition for the phrase a Nonprofit organization perilous. In addition, the boundary of what constitutes the Nonprofit sector is extremely permeable.

The discussion in this chapter focuses on private Nonprofit organizations in the United States (the largest group of formal and informal Nonprofit organizations worldwide). Nonprofit organizations exist in every country in a variety of forms and with disparate funding mechanisms. International governmental organizations (IGOs) are Nonprofits whose members are governments of nation-states that voluntarily join, contribute financing, and govern. Examples of these organizations include the United Nations, the North Atlantic Treaty Organization (NATO), the European Union (EU), and the League of Arab states (the Arab League) (Pease, 2008, p. 1). In addition, there are hundreds of thousands of nongovernmental organizations (NGOs) globally including grassroots membership organizations, village councils, agriculture cooperatives, and women's credit groups funded locally or from sources abroad. Large international nongovernmental organizations (INGOs) with relief and human development missions also exist, some with household names including Oxfam, Save the Children, and Medicins Sans Frontières. The number of formal relief and development Nonprofit organizations has grown substantially since the 1970s in response to corporate expansion and increasing concerns associated with globalization (Lindenberg & Bryant, 2001, p. 4). Discussion of these important national and international Nonprofit organizations, however, is outside the scope of this chapter.

What is a Nonprofit Organization?

The definition posited at the outset of this chapter is insufficient to capture many distinctive features of Nonprofit organizations in the United States. Salamon (1999) defines a Nonprofit organization as one that has a formal charter of incorporation, regular meetings, officers, rules of procedures, and some degree of organizational permanence. These organizations are private, self-governing, and voluntary, and they do not distribute profits. This definition includes important features of formally organized Nonprofit organizations but it does not accurately describe many small, loosely knit associations.

From a public policy perspective, Hall (1987) defines a Nonprofit organization as

a body of individuals who associate for any of three purposes: (1) to perform tasks that have been delegated to them by the state; (2) to perform public tasks for which there is a demand that neither the state nor for-profit organizations are willing to fulfill; or (3) to influence the direction of policy in the state, the for-profit sector, other Nonprofit organizations. (p. 3)

Frumkin (2002) identifies three common features of Nonprofit sector organizations; they do not coerce participation, they do not distribute profits to stakeholders, and they exist without simple and clear lines of ownership and accountability (p. 3).

Anheier (2005, pp. 4—9) introduces a dizzying array of Nonprofit organizations including museums, orchestras, schools, universities, adult educational organizations, research institutions, policy think tanks, health organizations, mental health organizations, human services organizations, credit and savings associations, environment and natural resources groups, local development and housing groups, humanitarian relief associations and international development organizations, human rights organizations, rural farmers' associations, religious organizations, foundations, service organizations, fraternities and sororities, special interest associations and advocacy groups, and self-help groups.

The IRS uses a coding system to classify roughly 28 different types of Nonprofit organizations. These codes apply to organizations that have formally incorporated at the state level and applied for tax-exempt status under federal guidelines. This includes a great number of organizations, but many, most notably religious organizations, are exempt from filing. Very small groups and associations, likewise, are not captured in these categories.

Nonprofits are rarely established as ends in themselves. Rather, "they are instruments created to achieve other ends" (Morgan, 2006, p. 15). Van Til (2005) describes the purposes for which organizations are established by sector. A first sector includes corporations and businesses, which are formed to make a profit, produce the bulk of goods and services for a society, and hire the most labor. A second sector is government, which provides military capacity, serves as a regulator, and provides some welfare services. Private voluntary and Nonprofit organizations form a third sector and pursue a variety of altruistic and social ends. These organizations "address a number of educational, charitable, and membership purposes and are supplemented by much valuable voluntary effort" (p. 41). A final sector includes family and kinship relations.

Van Til's third-sector distinction of organizations as private and Nonprofit differentiates them from government agencies, for-profit firms, or family or kin relations. His definition also interjects the notion of voluntary. Lohmann (1992) notes that a "distinction between productive and unproductive labor is, in all likelihood, the theoretical source of the contemporary distinction of profit-making and Nonprofit endeavors" (p. 37). Nonprofit organizations rely on volunteer labor. About 61.8 million people, or 26.4% of the U.S. population, volunteered for an organization between September 2007 and September 2008. About 35% of these volunteers worked the most hours in religious organizations, followed by 26% at educational or youth services. Another 14% of volunteers performed activities mainly for social or community service organizations (U.S. Department of Labor, the Bureau of Labor Statistics, 2009).

Some Nonprofit organizations serve almost as an arm of government. Funding patterns blur distinctions, and Nonprofits can become subject to pervasive governmental direction and oversight. "Most Nonprofit service organizations depend on government support for over half of their revenues: for many, government support comprises their entire budget" (Smith & Lipsky, 1993, p. 4). Nonprofits are not organized for purposes of generating profits like private businesses, but to suggest that they do not seek surplus revenues would be misleading. Many engage in entrepreneurial activities. "Money is vital.... No organization can operate without money" (Swoboda & Swoboda, 2009, p. 13).

Nonprofit Organizations as Organizations

The structure of a Nonprofit organization varies based on size, purpose, government laws, and organizational bylaws that govern the organization and appointments to its board of directors. Nonprofit organizations are

typically private organizations that are governed by a board of directors or trustees who do not receive compensation. These governing bodies provide policy direction and set and revise the Nonprofit's mission and vision. They are also responsible for ensuring the fiscal viability of the organization and hiring and firing an executive director, who is responsible for its day-to-day operations. This person is typically compensated for his or her time.

One way of understanding a Nonprofit organization is to observe the goals or ends to which it aspires. This is found in its mission statement, which outlines its purpose. The array of Nonprofit missions is diverse. Some designated as charitable are public-serving organizations established for broad, often altruistic purposes. These organizations serve the poor or disadvantaged; seek to protect people, animals, or the environment; promote health, safety, science, or the arts; and provide education, information, and other goods and services to the general public.

Other noncharitable Nonprofit organizations serve only a subsection of the public. Membership-based Nonprofit organizations may provide incidental or latent benefits to a larger community, but they are organized to provide benefits to their base, typically dues-paying members. These benefits may include tangible goods and services (such as insurance coverage, automobile towing, newsletters, and bumper stickers), access to exclusive "country club" facilities and social activities (such as golf courses, swimming pools, and dances or other social events), professional development, education and networking opportunities, and intangible and psychic benefits such as an enhanced self-image, a feeling of belonging, camaraderie, and friendship.

The Nonprofit sector as a whole is advantaged with an image suggestive of a selfless and generous lot, but while many Nonprofit organizations are formed for beneficent purposes, the characterization is too limited (Wagner, 2000). The broader nongovernmental sector includes extremist, terrorist, and hate groups, as well as unincorporated entities such as street gangs. By one estimate, the number of hate groups in the United States is rising. Some of these are organized as Nonprofit corporations, whereas others are informal groups without 501(c)(3) Nonprofit charitable status. In 2008, there were 926 such groups, up from 888 the previous year (Holthouse, 2009). Ku Klux Klans, neo-Nazis, and various skinhead groups are among these. In discussing the sector, it is helpful to recognize that, collectively, the vast majority of organizations are charitable, serve the common good, and provide benefits to society. The handful of recognized hate groups that exist should not be seen as defining of the sector. Nonetheless, given broad definitions and the scope of associations that exist in the United States, they are arguably one element of the Nonprofit sector.

What's in a Name?

Organizations in the Nonprofit sector have been referred to as voluntary organizations, public charities, charitable organizations, informal organizations, associations, clubs, and service-providing organizations. Each descriptor captures some of the characteristics of a Nonprofit organization, but each is deficient to accurately describe the features of all.

The phrase voluntary organization, for example, recognizes the noncoercive nature of a Nonprofit organization (Frumkin, 2002) and invokes the image of voluntary labor that is necessary for the governance and the day-to-day operations of many contemporary Nonprofit organizations. Nonprofit boards of directors are volunteers, who do not receive remuneration for their labor and cannot be enriched through the revenues generated by the organization. These volunteers are often professionals and leaders in their communities, bringing their experience, time, talent, treasure, and connections to their boards.

Volunteer labor is also widely used in Nonprofit organizations for administrative and support services as well as for program operations, fundraising, event planning, and implementation. Yet, the phrase voluntary sector does not recognize the paid labor force supported by Nonprofits. In 2006, Nonprofit organizations—including public charities, private foundations, and all others—accounted for 8.11% of the wages and salaries paid in the United States (The Urban Institute, 2008). Contemporary Nonprofit organizations are not profit seeking by definition, but they must create steady revenue streams to grow, develop, and sustain their activities. Sustaining a Nonprofit organization in today's competitive environment requires attracting people with professional skill sets to their doors, and these people are increasingly compensated.

It is estimated that of the roughly 1.9 million Nonprofits in the United States, 1.2 million are registered as public charities. The word charity means “individual benevolence and caring” and “includes relief of poverty, helping the sick, disabled and elderly, supporting education, religion and cultural heritage” (Anheier, 2005, p. 8). Charitable exempt purposes are set forth in section 501(c)(3) of the IRS code. These purposes

are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term charitable is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency. (IRS, 2009)

Many organizations can qualify as charitable. As mentioned previously, however, charitable Nonprofits are just one type of Nonprofit organization recognized under state laws or in the IRS codes.

A Firm Legal Foundation

The First Amendment in the Bill of Rights to the U.S. Constitution provides a firm legal foundation for Nonprofit organizations to exist. Freedoms of speech, religion, association, and the press, along with the right of the people to petition the government, create wide latitude for citizens to form associations for almost any purpose. In 1819, the U.S. Supreme Court upheld the right of Nonprofit corporations to remain beyond the reach of excessive government interference. In *Dartmouth College v. Woodward* (1819), the Court held that the composition of a board of directors of a legal private, charitable, eleemosynary corporation could not be altered by government. The ruling also upheld the right of boards of directors to govern and make policy decisions relatively unfettered.

A Simple Incorporation Process

To legally incorporate a Nonprofit organization is a relatively simple process, which serves to facilitate rather than discourage applications. It is estimated that every day 100 new Nonprofits are incorporated in the United States. To create a legal corporation, a Nonprofit must file articles of incorporation documents with the state's secretary of state. Application fees are relatively small, often only a few hundred dollars (Hopkins, 2009).

The benefits of incorporation include legal safeguards for the group's officers, employees, and volunteers and reductions in state and local taxes or exemptions from property, sales, and income taxes. Legally incorporated Nonprofit organizations may also apply to the IRS to request federal tax exemptions. The IRS is Congress's designated agency for reviewing applications, but eligibility, approval, and the type or amount of beneficial treatment is determined by Congress. The 1954 tax act established the codes used today by the IRS (Ott, 2001). The classifications vary based on the organization's purpose or mission, but almost all fall under the umbrella of section 501(c) of the Internal Revenue Code. Presently, almost 30 501(c) classifications exist.

Nonprofit Organizations

The categories identified by the IRS (2009) under the 501(c) coding scheme are shown in [Table 4.1](#). A host of other Nonprofits are also identified under IRS codes 501(d), 501(e), 501(f), 501(k), 521(a), and 527. As can be seen from this extensive listing, the purposes and types of Nonprofit organizations are varied and vast. Examples of the most popular types of Nonprofit organizations are described more fully in the following sections.

Table 4.1 Main IRS Nonprofit Categories

<i>Internal Revenue Code</i>	<i>Typical Organizations</i>
501(c)(1)	Corporations organized under act of Congress (including federal credit unions)
501(c)(2)	Title-holding corporations
501(c)(3)	Religious, charitable, and similar organizations
501(c)(4)	Civic leagues and social welfare organizations
501(c)(5)	Labor and agricultural organizations
501(c)(6)	Business leagues
501(c)(7)	Social and recreation clubs
501(c)(8)	Fraternal beneficiary associations
501(c)(9)	Voluntary employees' beneficiary associations
501(c)(10)	Domestic fraternal beneficiary associations
501(c)(11)	Teachers' retirement fund associations
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations
501(c)(13)	Cemetery companies (owned and operated exclusively for the benefit of their members)
501(c)(14)	State-chartered credit unions, mutual reserve funds
501(c)(15)	Mutual insurance companies or associations
501(c)(16)	Cooperative organizations to finance crop operations
501(c)(18)	Employee funded pension trusts (created before June 25, 1959)
501(c)(21)	Black lung benefit trusts
501(c)(22)	Withdrawal liability payment funds
501(c)(25)	Title-holding corporations or trusts with multiple parents
501(c)(26)	State-sponsored, high-risk health coverage organizations
501(c)(27)	State-sponsored worker's compensation reinsurance organizations

501(c)(3) Charities

The number of charitable organizations in the United States is estimated at 1.2 million. This category of Nonprofits includes service-providing charities, religious organizations, and funding intermediaries including foundations, federated funders, and professional fundraising groups (Salamon, 1999, p. 26).

One prominent service-providing charity is the Alzheimer's Association, a national Nonprofit organization with state and local affiliated chapters. The Alzheimer's Association is the leading voluntary health organization in Alzheimer care, support, and research. Its mission is to "eliminate Alzheimer's disease through the advancement of research; to provide and enhance care and support for all affected; and to reduce the risk of dementia through the promotion of brain health" (Alzheimer's Association, 2010).

In addition to mission statements that explain the purpose and existence of an organization, Nonprofits often use a vision statement to help inspire staff and offer the community a glimpse into what the organization hopes to achieve. The vision of the Alzheimer's Association is "a world without Alzheimer's disease." Hotlines, special event fundraisers, research and journal publications, consumer awareness bulletins, town

hall meetings, support groups, research grants, information and referral for families, care consultations, education and safety services, online message boards, library services, conferences, and the like are goods and services provided by the Alzheimer's Association.

Religious charities are treated somewhat differently than other charitable Nonprofit organizations. The Establishment Clause of the First Amendment to the U.S. Constitution provides organizations that promote religious views with protection from interference by government. John Marshall, Supreme Court Justice from 1801 to 1835, noted that "the power to tax" is also "the power to destroy." Thus, religious Nonprofits are able to exercise a great deal of fiscal autonomy and are not held to the same reporting requirements as other charities. Of the estimated 377,640 congregations that currently serve their communities in the United States, about half have chosen to register with the IRS (The Urban Institute, 2008).

Religious Nonprofit organizations are protected from invasive government inquiry and regulation, but this freedom is not absolute. Faith-based organizations that contract with governments to deliver services or those that have been charged with blatant abuses of the public trust, for example, may become subject to stringent fiscal reporting requirements. These are exceptions, however, rather than the rule. The largest faith-based organizations in the United States include Christianity, Judaism, Islam, Hinduism, Wicca, Buddhism, Sikhism, and Baha'i World Faith (Indiana University of Pennsylvania, 2009).

Funding intermediaries are charitable organizations whose principal purpose is to channel financial support, especially private charitable support, to other Nonprofit organizations. These intermediaries include foundations, federated funders such as United Way of America and its affiliates, and professional fundraisers.

Foundations provide funding to other charitable Nonprofit organizations, typically through earnings garnered from an endowment (Salamon, 1999, p. 26). The Foundation Center, a national Nonprofit service organization that publishes research on trends in foundation growth, practices, and giving, reports that charitable foundations gave \$45.6 billion in 2008 (The Urban Institute, 2008). Of this amount, 72% came from private independent foundations, 10% came from community foundations, 10% from corporate foundations, and 8% from operating foundations (The Urban Institute, 2008).

A well-known private foundation is the W. K. Kellogg Foundation, established in 1930 by breakfast cereal pioneer W. K. Kellogg. The foundation receives its income primarily from the W. K. Kellogg Foundation Trust, which owns substantial equity in the Kellogg Company, in addition to a diversified financial portfolio. The foundation is governed by an independent board of trustees and receives its income primarily from the trust's investments. The charitable mission of the W. K. Kellogg Foundation is to "support children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society." Today, the organization ranks among the world's largest private foundations (W. K. Kellogg Foundation, 2009).

501(c)(4) Civic Leagues and Social Welfare Organizations

Civic leagues and social welfare organizations "operate primarily to further the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements)" (IRS, 2009). Seeking legislation germane to the organization's programs is a permissible means of attaining purposes. Although 501(c)(3) charities may advocate for policy changes and engage in lobbying activity, it cannot be their primary purpose or they will jeopardize their charitable status. Thus, 501(c)(4) civic leagues and social welfare organizations may be created for the purpose of engaging in lobbying as a primary activity.

An example of a prominent 501(c)(4) organization in the United States is the National Rifle Association of America (NRA), which was founded in 1871. The NRA's Internet website includes the history and the many activities of the organization.

While widely recognized today as a major political force and as America's foremost defender of Second Amendment rights, the NRA has, since its inception, been the premier firearms education organization in the world. But our successes would not be possible without the tireless efforts and countless hours of service our nearly four million members have given to champion Second Amendment rights and support NRA programs.

As former Clinton spokesman George Stephanopoulos said, “Let me make one small vote for the NRA. They’re good citizens. They call their Congressmen. They write. They vote. They contribute. And they get what they want over time.” (NRA, 2009)

Another prominent 501(c)(4) organization is the National Organization for Women (NOW). NOW was founded in 1966 by women’s rights advocates and boasts a membership of 500,000 contributing members (NOW, 2009). Its purpose “is to take action to bring women into full participation in society—sharing equal rights, responsibilities and opportunities with men, while living free from discrimination.” NOW describes itself as the largest, most comprehensive feminist advocacy group in the United States.

NOW’s vast and diverse membership gives us clout in the government, media and the public eye. By speaking out and taking action, NOW activists make change happen at the local, state and national level. Because we don’t rely on foundation or corporate dollars, NOW’s work for equality and justice is made possible by membership dues, individual donations and volunteer hours. (NOW, 2009)

Social welfare organizations such as the NRA and NOW offer their members selective benefits such as membership cards, magazines, newspapers, e-mail alerts, bumper stickers, insurance, and the like. Membership dues are not deductible as charitable contributions and donors to these organizations cannot deduct their gifts from their personal tax obligations.

501(c)(5) Labor and Agricultural Organizations

Section 501(c)(5) provides for exemption of labor and agricultural or horticultural organizations. To gain exemption, these groups share the requirement applicable to all other Nonprofit organizations: that the net earnings of the organization may not inure to the benefit of any member. The objectives of 501(c)(5) organizations must relate to the

betterment of conditions of those engaged in the pursuits of labor, agriculture, and horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations. Seeking legislation germane to the labor or agricultural organization’s programs is recognized as a permissible means of attaining its exempt purposes. Thus, a section 501(c)(5) organization may further its exempt purposes through lobbying as its primary activity without jeopardizing its exempt status. (IRS, 2009)

An example of a 501(c)(5) organization is the Iowa Soybean Association (ISA). The ISA was organized in 1964 by a group of Iowa farmers who came together with a common goal of increasing the profitability of soybean production in the state. Currently, the association serves 6,000 members (ISA, 2009).

The ISA describes its activities as initiating grassroots governmental affairs activities at all levels and promoting state soybean policy positions in Des Moines, Iowa, and Washington, D.C. The organization conducts member services programs and contracts for consumer and industry information, producer communications, and research. “Members of the ISA are interested in increasing the profitability of soybeans and want to assure their livelihood in the production of soybean” (ISA, 2009).

501(c)(6) Business Leagues

Section 501(c)(6) of the Internal Revenue Code provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit. As with other Nonprofits, they share the nondistribution restriction, which means that no part of their net earnings may be used to benefit any officer or member of the organization.

A business league is an association of people having some common business interest; the organization’s purpose is to promote that common interest. These are not the regular businesses in the for-profit sector. Trade associations and professional associations are business leagues. To be exempt, a business league’s activities must be devoted to improving business conditions of one or more lines of business as distinguished

from performing particular services for individuals. The term line of business generally refers either to an entire industry or to all components of an industry within a geographic area. It does not include a group composed of businesses that market a particular brand within an industry (IRS, 2009). Chambers of commerce and boards of trade are organizations of the same general type as business leagues. They direct their efforts at promoting the common economic interests of all commercial enterprises in a trade or community, however.

The American Medical Association (AMA) is a well-known 501(c)(6) Nonprofit organization with a mission “to promote the art and science of medicine and the betterment of public health.” Its vision is “to be an essential part of the professional life of every physician” (AMA, 2009). The AMA seeks to help doctors help patients by uniting physicians nationwide to work on the most important professional and public health issues.

The future of medicine should be decided by physicians themselves—not legislators or private interests like insurance companies. So the AMA represents physicians’ interests in both the public and private sectors and offers valuable tools that empower physicians to do their best work. (AMA, 2009)

501(c)(7) Social and Recreational Clubs

Social and recreational clubs are organized for the pleasure and recreation of their members, and almost all of its activities must be for these purposes. A club will not be recognized as tax exempt if its charter, bylaws, other governing instrument, or any written policy statement provides for discrimination against any person based on race, color, or religion. There is an exception, however, for a club that in good faith limits its membership to members of a particular religion, to further the teachings or principles of that religion and not to exclude individuals of a particular race or color.

The mark of a social or recreational club is limited membership. In other words, if a club's facilities are open to the general public (people other than members or their dependents or guests), it may cause denial of exemption. This does not mean that any dealing with outsiders will automatically deprive a club of exemption, but Nonprofit organizations of this type are not public-serving enterprises.

To be recognized as a 501(c)(7) organization, the IRS requires that a club to be supported solely by membership fees, dues, and assessments. A section 501(c)(7) organization may receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its taxexempt status. No more than 15% of this amount may be derived from the use of the club's facilities or services by the general public or from other activities not furthering social or recreational purposes for members (IRS, 2009). If an organization has nonmember income that exceeds these limits, the club will be subject to IRS scrutiny, and its exempt status will be called into question.

The category of popular 501(c)(7) organizations is numerous and may include golf clubs, country clubs, campus sororities and fraternities, hiking clubs, book clubs, and the like. An essential earmark of an exempt club is personal contact, commingling, and face-to-face fellowship. Thus, these organizations are often small with perhaps up to several hundred members. Members must share interests and have a common goal directed toward pleasure, recreation, or other Nonprofitable purpose. A statewide or nationwide organization that is made up of individual members but is divided into local groups satisfies this requirement if fellowship is a material part of the life of each local group.

501(c)(8) or 501(c)(10) Fraternal Beneficiary Societies, Domestic Fraternal Beneficiary Societies

To be exempt under IRS section 501(c)(8), a fraternal beneficiary society, order, or association must have a fraternal purpose, and its membership must be based on a common tie or the pursuit of a common object. The organization must also have a substantial program of fraternal activities and operate under the lodge system or for the exclusive benefit of the members of a fraternal organization (IRS, 2009). A lodge system requires, at a minimum, two active entities: (1) a parent organization and (2) a subordinate (called a lodge, branch, or the like) chartered by the parent that is largely self-governing. It must provide for the payment of life, sickness, accident, or other benefits to the members of such society, order, or association or their dependents. An

organization that provides benefits to some, but not all of its members may qualify for exemption so long as most of the members are eligible for benefits, and criteria for excluding certain members are reasonable (IRS, 2009).

To be exempt under IRC 501(c)(10), a domestic fraternal society, order, or association must meet the above requirements but must not provide for the payment of life, sickness, accident or other benefits to its members. The organization may arrange with insurance companies to provide optional insurance to its members without jeopardizing its exempt status. In addition, it must devote its net earnings exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes, and it must be a domestic organization, that is, it must be organized in the United States (IRS, 2009). Referred to colloquially as “animal organizations,” the hundreds of Moose, Eagles and Elks lodges in the United States are among the best-known fraternal Nonprofit organizations. The mission of the Benevolent and Protective Order of Elks of the United States is as follows:

To inculcate the principles of Charity, Justice, Brotherly Love and Fidelity; to recognize a belief in God; to promote the welfare and enhance the happiness of its Members; to quicken the spirit of American patriotism; to cultivate good fellowship; to perpetuate itself as a fraternal organization, and to provide for its government. The Benevolent and Protective Order of Elks of the United States of America will serve the people and communities through benevolent programs, demonstrating that Elks Care and Elks Share. (<http://www.elks.org>)

The number of traditional fraternal organizations in the United States has been on the decline in recent decades. This has been attributed to a number of causes, including hyperindividualism and an aging membership base (Bellah, Madsen, Sullivan, Swidler, & Tipton, 1985). The reduction in the number of these organizations poses dilemmas for members and raises interesting questions about the role of such organizations in local communities (Dicke, 2008).

Benefits Available to Legally Incorporated Nonprofits

A host of laws and regulations have evolved over time to provide for the exemption of Nonprofit charitable, religious, educational organizations, fraternal beneficiary societies, and certain mutual savings banks and mutual insurance companies. These exemptions have been justified based on arguments of public support, ethics and morals, public policy, and special interest.

Each of these types of entities (and numerous others) are granted exemptions generally because of the political power these special interest groups represent or the legislature's feeling these group's (veterans particularly) should be rewarded for past services to the country. These classifications also lend credence to the diversity and free association argument for exemption. (Scrivner, 2001, p. 128)

Incorporated Nonprofit organizations of all types may be able to take advantage of certain tax benefits and qualify for eligibility for government grants or contracts or foundation grants. Preferred postage rates received from the United States Postal Service (USPS) is another benefit that also may be available. Only some Nonprofit organizations are able to take advantage of all of these benefits. For example, donors making a contribution to a 501(c)(3) charitable Nonprofit organization are able to deduct all or some of their donation from their personal tax obligation. This incentive to encourage charitable giving by individuals does not apply to other 501(c) Nonprofit organizations.

The favorable postage rate provided by the USPS is likewise targeted to just a few types of Nonprofits, and there are restrictions on how and when these can be used. To apply for authorization to mail at Nonprofit rates, potentially eligible organizations must provide supporting documentation that they are organized and operated for a qualifying primary purpose. The organization must also show that they are not organized for profit and also that none of the organization's net income is intended to benefit any individual or private stockholder.

The USPS recognizes 10 categories of organizations that may apply for authorization to mail at Nonprofit standard mail rates. These include religious, educational, scientific, and philanthropic (charitable),

agricultural, labor, veterans, and fraternal organizations, along with voter registration officials and national and state political parties (USPS, 2009). Explicitly excluded from eligibility are organizations including government, associations of rural electric cooperatives, automobile clubs, business leagues, chambers of commerce, citizen's and civic improvement association, individuals, mutual insurance associations, political organizations other than those specified, social and hobby clubs, and trade associations.

Taken together, there are a number of attractive benefits and incentives for incorporated Nonprofit organizations, with the 501(c)(3) charitable organizations receiving the best package. These Nonprofits receive the most favorable tax treatment under U.S. law because they provide goods and services to the public that, in their absence, government would have to provide. There is also general support from the public for the generally beneficial activities of these organizations.

Summary

The definition of a Nonprofit organization provided at the outset of this chapter offers insight but “developing a cognitive map of the [Nonprofit] sector is difficult” (Gronberg, in Ott, 2001, p. ix). Attempting to describe even one small part of it with consistency is challenging. A Nonprofit organization can be accurately described as a small, loose association of people with like-minded goals who volunteer their time for public purposes, but it also could just as easily be characterized as a large, formally incorporated structure with hundreds of volunteers and paid employees. And whereas vast numbers of Nonprofit organizations provide benefits to the larger society, others pursue corrosive ends.

This chapter has provided an overview of Nonprofit organizations that are formally organized in the United States. At the time of this writing, the information included is as precise as is possible, but changes in state or federal laws or the adoption of new policies or regulations that affect Nonprofits could change its accuracy. Thus, the reader is urged to stay abreast of relevant laws, rules, and so on to ensure access to the most up-to-date information affecting the status of Nonprofit organizations in the United States.

What has been provided here should by no means be considered an exhaustive discussion of Nonprofit organizations. In countries such as the United Kingdom, many government agencies have adopted what are referred to as “new public management reforms.” These partnerships between governments and Nonprofits are proliferating, and there is a growing body of research about these collaborations (Chew & Osborne, 2009). There is much to be learned about these and a host of other Nonprofit initiatives in the years to come.

In general,

the purposes of Nonprofit organizations and for-profit organizations differ with the purpose of a Nonprofit serving as the basis of its formal exemption from paying federal income taxes. Additionally, unlike for-profit organizations, most Nonprofit organizations are legally constrained from distributing residual earnings to individuals who exercise control over the firm, such as officers, directors, or members. (The Urban Institute, 2008)

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