



# **STRENGTHENING THE FOUNDATIONS OF COMMUNITY**

## **GREATER WICHITA YMCA**

At the Y, we're guided by a mission to build healthy spirit, mind, and body for all by offering life-changing programs, friendly staff, and top-notch facilities, as well as reaching out to individuals across the community with a variety of community engagement and outreach efforts.

Learn more about what it means for the Y to be a nonprofit:

### **What is a nonprofit organization?**

What distinguishes nonprofits is not whether they can make a profit, but what happens to profits.

The word "nonprofit" refers to a type of business which is organized under rules that forbid the distribution of profits to owners. Nonprofit organizations can, and do, operate in all other particulars like any other sort of business. They have bank accounts; own productive assets; receive income from sales and other forms of activity, including donations and grants; make and hold investments; employ staff; enter into contracts; etc.

Simply put, a nonprofit is an organization that comes together to achieve a mission, rather than to make a profit. Its net earnings are devoted exclusively to charitable, educational, or recreational purposes, and its board of directors (or trustees) ensures the nonprofit actually works for the public good and earns its tax breaks.

### **Why are nonprofit organizations tax-exempt?**

All nonprofits are exempt from federal corporate income taxes. Most are also exempt from state and local property and sales taxes. Nonprofits are not exempt from withholding payroll taxes for employees.

In return, nonprofits must closely adhere to strict standards of conduct and activity. Unlike businesses, which can distribute excess money to shareholders, nonprofits are obligated to keep the money in reserve or put it back into their programs and operations. The Internal Revenue Service (IRS) also requires that tax-exempt organizations permanently dedicate their assets to an exempt purpose.

Here are some of the reasons why nonprofit organizations are tax-exempt and why it makes sense to preserve these tax-exemptions:

- Nonprofits relieve government's burden. Private schools, hospitals, day care centers, homeless shelters, and other nonprofits provide services that government might otherwise be required to offer. Through tax-exemptions, governments support the work of nonprofits and receive a direct benefit.
- Nonprofits benefit society. Nonprofits encourage civic involvement, provide information on public policy issues, encourage economic development, and do a host of other things that enrich society.
- Taxing nonprofits would be difficult and counterproductive. Determining what qualifies as taxable income would be extremely difficult according to many economists. The adverse effects of taxation on the viability and effectiveness of many nonprofits would be counterproductive and cost more to the community than the taxes it would generate.

### Can a nonprofit make a profit?

It's a myth that a 501(c)(3) nonprofit organization can't make a profit. What distinguishes nonprofits is not whether they can make a profit, but what happens to profits.

Operating any organization at a deficit or without a "rainy day" fund is not good business. In order to maintain the viability of any organization, it is important to operate with some "net revenue" at the end of a year. Under state and federal tax laws, a nonprofit organization can take in more money than it spends to conduct its activities.

Nonprofits are prohibited from distributing profits in the same way as for-profit corporations. All revenue must be used to further the goal of the organization, rather than being split among high ranking members of the organization.

### How does a nonprofit differ from a for-profit business?

	<b>Non-profit Organization</b>	<b>For-profit Business</b>
<i>Purpose</i>	Purpose is to benefit the "greater good" of the community	Purpose is the financial benefit of its owners and/or shareholders
<i>Goal</i>	Mission is its goal and operating surpluses must be reinvested in the mission for which it was formed or be distributed to other nonprofit agencies.	Profit is its goal and profits are distributed to owners and/or shareholders
<i>Taxes</i>	Does not pay taxes on surpluses	Pays taxes on profits
<i>Assets</i>	Assets belong to the community. When a nonprofit goes out of business, its remaining assets must be given to another nonprofit	Assets belong to the owner and/or shareholders. When a for-profit goes out of business, its assets can be liquidated and the proceeds distributed to the owners and/or shareholders.