



## Advantages & Disadvantages of Forming a Nonprofits Organization

Nonprofit organizations support the role of government, helping resolve or prevent society's problems. Here are some considerations to help one decide whether to incorporate a nonprofit corporation.

### ADVANTAGES

- ✓ The forming of a corporation, whether profit or nonprofit, protects the incorporators from personal liability for the debts of the corporation unless the incorporators cosign a contract or other promise to pay if the corporation does not. The corporation is a separate "person" under the law.
- ✓ Organizations which apply for and receive acceptance as 501(c)(3) organizations qualify as exempt from income taxation and often state sales taxes.
- ✓ Most nonprofit organizations qualify for private and public grants, including those from individuals, foundations, other nonprofits, and government sources.
- ✓ Some kinds of nonprofits sometimes receive special rates from vendors and others such as postal rates for mass mailings.
- ✓ Contributors receive deductions for contributions to nonprofits.
- ✓ Some municipalities in some states give more zoning freedom to nonprofits which gives them greater bargaining power for variances, etc.

## **DISADVANTAGES**

- ✓ Forming a corporation, whether profit or nonprofit, means giving up some control from one person or a few individuals to a group, that is, a board of directors.
- ✓ There are many reporting requirements
- ✓ Nonprofits are more limited in their activities and purposes than ordinary business corporations.
- ✓ Most records are open to public review.

## **DIFFERENCES BETWEEN PROFIT AND NONPROFIT ORGANIZATIONS**

- ✓ Nonprofits seek to give service; ordinary businesses want to make a profit.
- ✓ Nonprofits use revenue left over after expenses are paid to advance the organization's exempt purpose.
- ✓ Nonprofits proactively seek to resolve community problems without regard to profit.
- ✓ Nonprofits should not compensate their employees higher than reasonable rates.
- ✓ Members of nonprofit boards of directors are motivated by a desire to serve the public, not monetary gain.
- ✓ Many nonprofits provide services through hundreds of hours of volunteer work and thousands of dollars in charitable contributions

## **STARTING A NONPROFIT OR NEED LEGAL ADVICE FOR AN EXISTING NONPROFIT?**

Contact Side Project Inc. today. We have lawyers admitted to practice in Pennsylvania, Florida and the United States Tax Court ready to help.

Pittsburgh Office: 814-520-7544 or email [jeff@sideprojectinc.org](mailto:jeff@sideprojectinc.org)  
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