

# Defining and describing the nonprofit sector

**January 13, 2022**

PMAP 3210: Introduction to nonprofits  
Andrew Young School of Policy Studies

**Do your check-in!**

# Plan for today

**The universe of nonprofits**

**Problems with nonprofits**

# The universe of nonprofits

# What are nonprofits?

Typically, they are:

**Corporations**

**with Special Tax Status**

**providing a Public Good**

# Confusing names!

These are all basically the same thing!

Nonprofit organization (NPO)

Non-profit organization

Not-for-profit organization

Nongovernmental organization (NGO)

501(c)(3)

501(c)

Third sector

# Six characteristics of nonprofits

Formal organization

Non-profit-seeking or distributing

Private

Self-governing

Voluntary

Operating for public or mutual benefit

# Public or mutual benefit

Nonprofits don't always have to serve the public

## Public-serving

Charities

Foundations

Advocacy organizations

Education

Hospitals

Focused on the broader public

## Member-serving

Fraternities and sororities

Professional associations

Sports clubs

HOAs

Focused on their members

# Nonprofits and taxes

Organizations that focus  
on the public get  
special tax privileges



# §501(c)

Page 1455

TITLE 26—INTERNAL REVENUE CODE

§ 501

## **§ 501. Exemption from tax on corporations, certain trusts, etc.**

### **(a) Exemption from taxation**

An organization described in subsection (c) or (d) or section 401(a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503.

### **(b) Tax on unrelated business income and certain other activities**

An organization exempt from taxation under subsection (a) shall be subject to tax to the extent provided in parts II, III, and VI of this subchapter, but (notwithstanding parts II, III, and VI of this subchapter) shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

### **(c) List of exempt organizations**

The following organizations are referred to in subsection (a):

(1) Any corporation organized under Act of Congress which is an instrumentality of the United States but only if such corporation—

(A) is exempt from Federal income taxes—

(i) under such Act as amended and supplemented before July 18, 1984, or

(ii) under this title without regard to any provision of law which is not contained in this title and which is not contained in a revenue Act, or

(B) is described in subsection (I).

(2) Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under this section. Rules similar to the rules of subparagraph (G) of paragraph (25) shall apply for purposes of this paragraph.

(3) Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or

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# 501(c) categories you should know

There are 29 different types in §501(c),  
plus a bunch in §527!

Pages 69–70 in **IRS Publication 557**

501(c)(3)

501(c)(4)

501(c)(6)

527

# 501(c)(3)

Nine official subsectors: **NTEE-CC**

- Arts, Culture, and Humanities
- Education
- Environment and Animals
- Health
- Human Services
- International, Foreign Affairs
- Public, Societal Benefit
- Religion Related
- Mutual/Membership Benefit

# 501(c)(3)

## Charitable organizations

Most nonprofits you can think of

Organization is tax exempt

Contributions are tax deductible

Only category that allows this!

**Why care about  
tax deductions?**

# Jody earns \$80,000/year

<b>Annual income</b>	<b>Marginal tax rate</b>
\$0–\$10,000	0%
\$10,001– \$50,000	10%
\$50,001– \$100,000	20%

She pays 0% on first \$10,000  
(\$0)

She pays 10% on the next \$40,000  
(\$4,000)

She pays 20% on the last \$30,000  
(\$6,000)

**Total = \$10,000**

# 501(c)(3)

## Charitable organizations

Most nonprofits you can think of

Organization is tax exempt

Contributions are tax deductible

Only category that allows this!

Insubstantial lobbying allowed

But no participation in political campaigns



# 501(c)(4)

## Social welfare organizations

ACLU, NAACP, NRA, some political PACs

Organization is tax exempt

Contributions are ***not*** deductible

Political lobbying allowed  
(2010 Citizens United decision)

# 501(c)(6)

## Business leagues and trade associations

RIAA, chambers of commerce, the NFL

Organization is tax exempt

Contributions are ***not*** deductible

Political lobbying allowed

# §527

## Political parties, campaigns, PACs

ActBlue, EMILY's List, Republican Governors Association, AFL-CIO

Organization is tax exempt **only** for "exempt activity"

(Money spent on political activities and lobbying)

Contributions are **not** deductible

Political lobbying is their whole purpose

# Getting tax exemptions

Establishing a nonprofit corporation  
does not automatically give you tax exemption!

Incorporate at the *state* level  
through the state's Department of State

Apply to the IRS at the *federal* level to get tax-exempt status  
using one of the 501(c) categories (most often 501(c)(3))

# Nonprofits vs. foundations



ROBERT W. WOODRUFF  
FOUNDATION

Both are 501(c)(3)s!

How are they different?

# Nonprofits vs. foundations

## Public charities

Income from lots of sources

Charities must demonstrate  
"public support" to the IRS  
(10–33.33%)

## Private foundations

Income from one (or a few) sources

Foundations must pay taxes on  
investment income

Foundations must give away at  
least 5% of their assets each year

# Problems with nonprofits

# Issues in the nonprofit sector

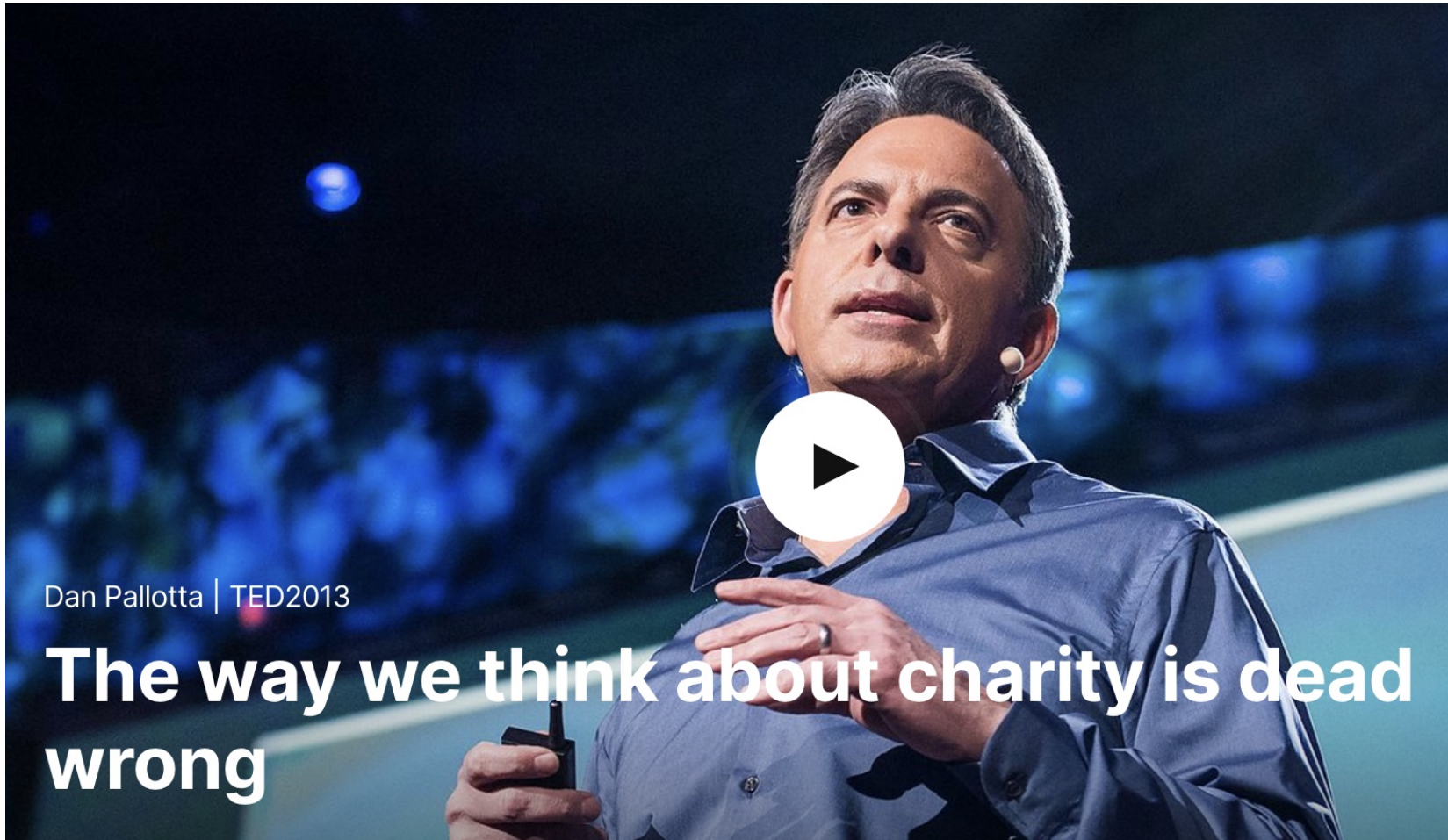
**Undercompensation, tame programs,  
and fear of overhead**

**Elite control and reputation laundering**

**Subversion of the public sector**



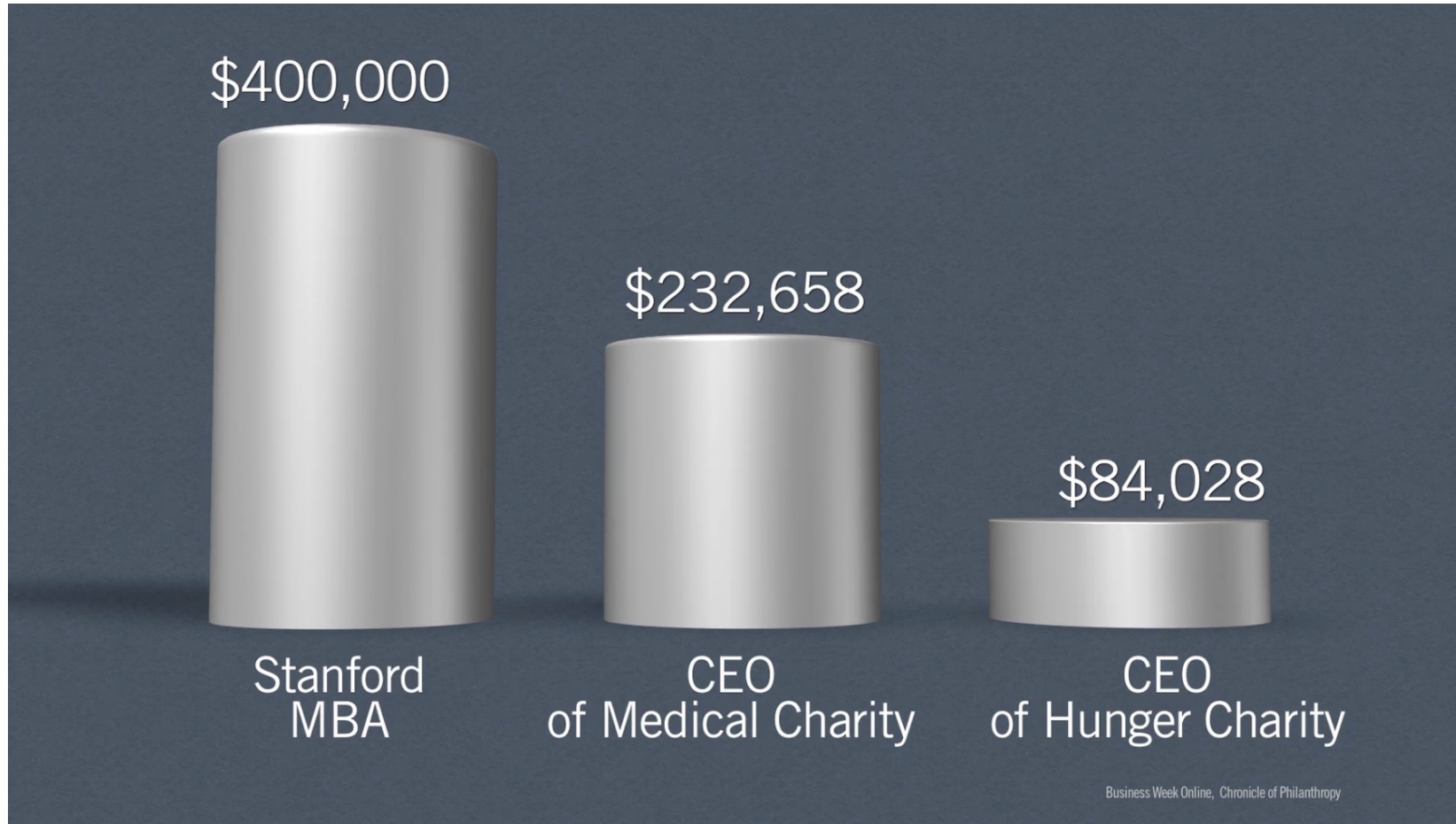
# Structural issues with the sector



# Structural issues with the sector

**Low compensation + burnout**

# Abysmal compensation



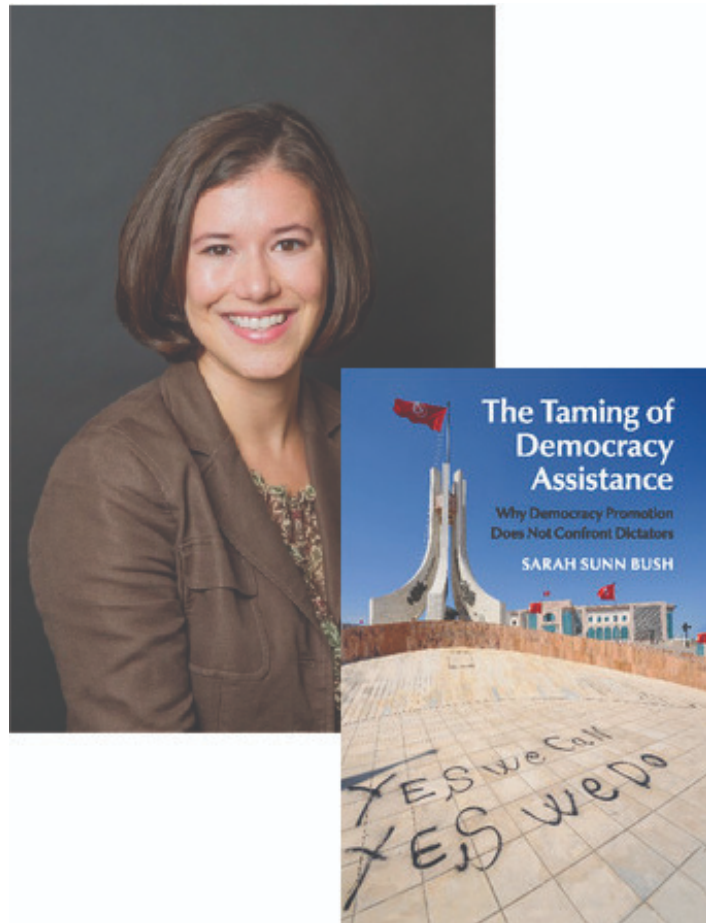
# Structural issues with the sector

Low compensation + burnout

Fear of marketing and overhead

Reluctance to take risks

# Taming programs to get funding



Funders demand  
measurable results

NGOs do easier, more  
measurable programs

Mission drift

# Structural issues with the sector

Low compensation + burnout

Fear of marketing and overhead

Reluctance to take risks

Constrained time horizons

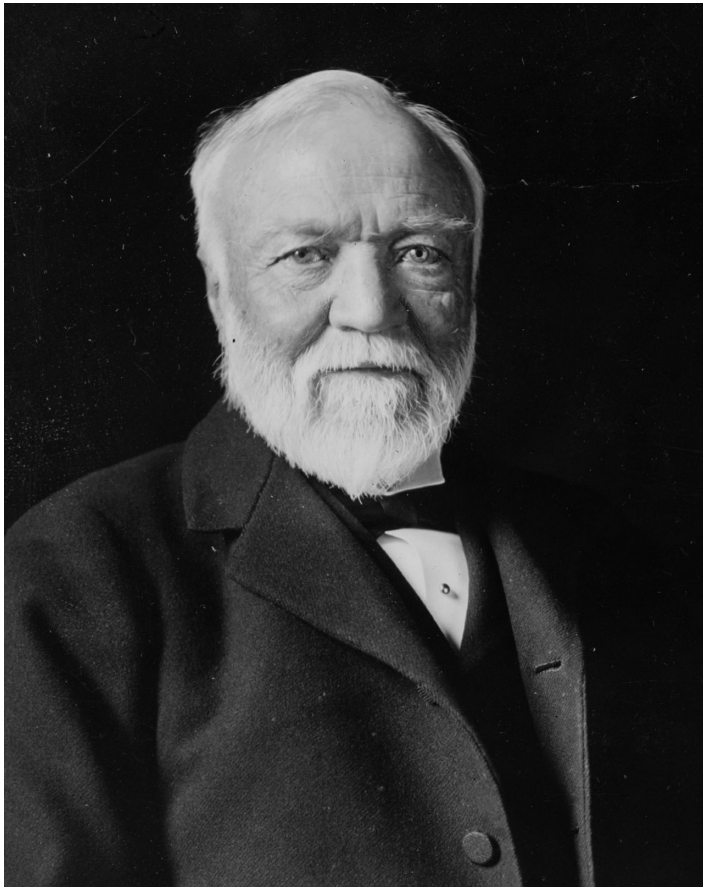
Since there are no profits, it's hard to attract capital

# Embedded values

**Don't confuse  
morality  
with frugality**



# Elite philanthropy



Public library system

Carnegie Hall

Carnegie Institute

Carnegie Mellon University

Carnegie Endowment  
for International Peace



# Why?

**Why donate all this money?  
instead of keeping it?**

# Modern parallels?

# Elite philanthropy gone wrong



## WINNERS TAKE ALL

The **ELITE CHARADE** of  
**CHANGING** the **WORLD**



ANAND GIRIDHARADAS

Billionaires can avoid  
taxes and set their own  
policy agendas

Subversion of  
the public sector

Billionaires can  
use nonprofit work  
to build reputation

# Reputation laundering

Home > Personal Finance

## Sackler family banned — temporarily — from putting their name on buildings as part of \$4.5 billion opioid settlement

Last Updated: July 13, 2021 at 9:22 a.m. ET

First Published: July 9, 2021 at 2:59 p.m. ET

By [Leslie Albrecht](#)

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The Sacklers will also give up control of two charitable foundations that fund cancer research.

# Reputation (and money?) laundering



Politics

**This is the portrait of Donald Trump that his charity bought for \$20,000**



# Reputation laundering

## Greenwashing



Guardian sustainable business

### The troubling evolution of corporate greenwashing

The term “greenwashing” was coined in the 1980s to describe outrageous corporate environmental claims. Three decades later, the practice has grown vastly more sophisticated

Bruce Watson

## Pinkwashing



The 48th annual LA Pride Parade on June 10, 2018, in the Hollywood section of Los Angeles and West Hollywood, California. | David McNew/Getty Images

### How LGBTQ Pride Month became a branded holiday

And why that's a problem.

By Alex Abad-Santos | alex@vox.com | Jun 25, 2018, 1:40pm EDT

# Misuse in other countries

**GONGOs**

Government-operated NGOs

**First Lady NGOs**