



Ethics in Nonprofit Compensation Oct 16, 2018

Often those outside the nonprofit sector are confused about the difference between nonprofit and for-profit business flow. Where do nonprofits get their money? Do they have a traditional corporate structure? What happens to donations? Are nonprofits subject to the same rules and regulations as other business types? In way of clarification, here are some basics.

The federal and state governments reward nonprofit organizations for the good work they do by not requiring them to pay taxes. Nonprofits are required to apply their profits for the purpose stated in their IRS determination. Nonprofit organizations can accumulate profits, but they can't distribute them to the founders or owners or use them to increase employee salaries beyond the norm (see note at bottom of this article).

Each type of nonprofit organization has government regulations that it must follow to retain its nonprofit status. APOPS is a 501(c)(3) federally recognized corporate nonprofit. A 501(c)(3) organization is a corporation, trust, unincorporated association, or other type of organization, exempt from federal income tax under section 501(c)(3) of Title 26 of the United States Code (the C stand for charity). It is one of the 29 types of 501(c) nonprofit organizations in the US. Hospitals, schools, churches, etc. are also considered nonprofits, but are unique corporate structures. Not all nonprofits are eligible to be tax-exempt.

A nonprofit organization, once approved through a federal application process, is granted tax-exempt status by the US Internal Revenue Service (IRS). For-profit companies must pay federal income tax. Nonprofits pay no income tax on the donations they receive or on money they earn through their fundraising activities.

Nonprofits are also exempt from paying state sales tax if they have applied for exempt status in their state and/or additional states and are approved). While the income of a nonprofit organization may not be subject to federal income taxes, nonprofit organizations do pay employee taxes (Social Security and Medicare), just like any for-profit company.

Both for-profit and nonprofits have operating expenses to cover (utilities, insurance, office supplies, payroll, etc.). For-profit expenses are paid for by goods and/or services provided or sold for a fee (whether toothpaste or legal counsel for example). Nonprofit funding typically comes from private individual donations, corporate philanthropy, government, family, corporate, or community foundation grants, fundraisers, or branded merchandise sales (t-shirts, caps, and so on) related to the cause being championed.

Whether nonprofit and for-profit, companies and organizations strive to be profitable. The difference between a nonprofit organization and a for-profit corporation is related to what is done with the profits after expenses are paid. For-profit companies disperse profits to owners, stock holders, investors, or it may be reinvested into the company. Charity nonprofits funnel profits back into programs and services that further their mission.

For-profit companies and corporations pay income tax on profit made in a calendar year. Tax reports must be filed by companies just as they are filed by individuals. While nonprofits file tax reports, they do not pay income taxes.

Screen the nonprofits you donate via Charity Navigator. <https://www.charitynavigator.org/>

Google CEO and Executive Director wages at the charities you choose to donate to prior to making that donation. You may be surprised at how high compensation is for many nonprofit executives. Nonprofit executives typically work tirelessly to move their agency agenda forward. APOPS' stance however, is inappropriately high executive wages beyond the national average deflect monies that should be funneled into nonprofit programs and services. Charity watch-dog agencies will often clarify which nonprofits are doing their jobs well. Nonprofits that make under \$50,000 a year file a short form tax report, which excludes details, so there may not have much information available. These nonprofits may still be efficient in their processes but have not become large agencies at this point in time.

As of October 2018, Charity Navigator indicates the average annual CEO compensation for an advocacy nonprofit CEO is \$120,000. Here are examples of recently released nonprofit organization annual CEO salaries, highest to lowest.

United Way \$1,188,073

American Heart Association \$936,738

Komen (breast cancer) \$684,000

American Cancer Society \$670,129

UNICEF \$569,378

Red Cross \$500,000

Salvation Army \$13,000

Since founding in 2010, APOPS CEO has not received compensation, focusing on establishment of a solid base for global evolution of the organization.

Donate wisely.