



Many missions | 100 counties | One voice

North Carolina Nonprofit Basics

Nonprofits are a major part of North Carolina's economy

- Nonprofits employ about **10% of North Carolina workers in the private sector**.
- The nonprofit sector pays **more than \$19 billion in wages** to North Carolinians. Though nonprofit organizations are tax-exempt, nonprofit employees pay taxes – state income taxes, local and state sales taxes, and property taxes.
- According to analysis from the North Carolina Center for Nonprofits, charitable nonprofits contribute **more than \$1.1 billion per year in state taxes and fees** that help support public education, access to healthcare, public safety, and other essential government services. These taxes and fees far exceed the estimated \$700 million in foregone state revenue from nonprofit tax exemption and tax incentives for charitable giving.
- Nonprofits put **\$56 billion directly into North Carolina's economy** each year through their expenditures.

Nonprofits form a large and diverse sector

- Most nonprofits are very small. Of the **40,000 North Carolina 501(c)(3) nonprofits**, about **11,800 organizations** have annual revenues over \$50,000 (*i.e.* those that file Form 990 every year).
- Collectively, the 97 nonprofit hospitals and 77 private colleges account for half of nonprofits' \$56 billion in spending.
- One-third of North Carolina nonprofits are human service providers. Another 18% are education organizations, 11% provide health care or mental health services, 9% are arts or cultural organizations, and 8% are faith-based.

Nonprofits have a wide range of revenue sources

- According to a National Council of Nonprofits analysis, nearly half of nonprofits' revenue comes from private fees for services. These fees can include tuition to private schools and private colleges, insurance fees paid to nonprofit hospitals, admission charges to arts venues, and fees for basic services such as day care and senior care.
- Nonprofits receive about one-third of their overall revenue from payments from federal, state, and local governments in exchange for the provision of public services.
- Private giving from individuals and businesses comprises only about 5% of the sector's overall revenue, but these types of contributions are the primary source of funding for many individual nonprofit organizations.

Nonprofits are struggling to respond to skyrocketing needs, but with fewer resources

- **More than half of NC nonprofits experienced an increase in demand for their services** during the first three months of the COVID-19 pandemic. Record numbers of people across the state are seeking help at food banks, crisis assistance centers, affordable housing providers, community health centers, domestic violence agencies, and consumer credit counseling services.
- Because of the pandemic, nonprofits have fewer personnel to respond to these increasing needs. **Three-fourths of nonprofits reported having at least 10% of their staff positions vacant** in late 2021. Also, North Carolina nonprofits lost **about 40% of their volunteers in 2020**, and the majority of these volunteers have not returned.
- Nonprofits are struggling financially due to COVID-19. **Three-fourths of NC nonprofits lost revenue during the first three months of the pandemic** in 2020 and many are still behind on their budgets because of this shortfall.
- At the same time, private fundraising is getting harder for nonprofits. The federal tax law changes that took effect in 2018 mean that **fewer than 10% of North Carolinians now use the charitable deduction on their taxes**, down from more than 30% of taxpayers previously.
- The pandemic relief programs that helped nonprofits begin to recover last year – including the Paycheck Protection Program, the Employee Retention Tax Credit, the universal charitable deduction, and one-time federal and state grants to a variety of nonprofits – have all expired. Nonprofits still need significant pandemic relief as they continue to struggle to meet increased demands with reduced financial resources and personnel.

What are 501(c)(3) nonprofits?

Nonprofits that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code must **operate for the public benefit**. They must be organized to achieve specific charitable, religious, educational, scientific, or literary purposes. Some examples of nonprofits' purposes include:

- Delivering needed services – feeding the hungry, providing end-of-life care.
- Educating the public on vital issues – ways of improving public health, how to stop child abuse.
- Finding solutions – cleaning up polluted streams, providing child care for working families.
- Nurturing our culture – providing music, theatre, arts, and ways to learn about our history.
- Engaging people in the community – building houses, mentoring young students.
- Providing a voice – speaking out for children or seniors with disabilities.
- Improving government policies – researching and advocating ways to improve transportation.
- Providing faith-based activities – houses of worship, community service projects.

They are required to operate very differently from for-profit businesses. They agree to **give up three fundamental rights** that for-profit businesses have:

1. **Profits.** No one “owns” a nonprofit. They are required by federal law to reinvest all of their net earnings back into their missions. By contrast, for-profit businesses distribute their profits to shareholders or owners. Financially sound nonprofits do, in fact, need more revenue than expenses to sustain their operations. It is important for nonprofits to maintain financial reserves as a “rainy day fund” that can cover several months of operations.
2. **Privacy.** Many documents of 501(c)(3) nonprofits are available to the public. These include nonprofits' applications for tax-exempt status and their basic governing documents. Nonprofits with annual budgets over \$50,000 are required to make public the Form 990 that they file every year with the IRS. The 990 includes information on programs, revenue and expenses, key employees' salaries, governance, and the identity of directors and officers. Smaller nonprofits also must identify their board officers and attest to their budget size.
3. **Politics.** Engaging in partisan politics is absolutely prohibited for 501(c)(3) nonprofits. They can lose their tax-exempt status if they make political contributions or coordinate activities with political parties or candidates for office. Importantly, 501(c)(3) nonprofits are allowed and encouraged to take positions on policy issues, educate elected officials about their issues, and lobby.

How Do Nonprofits Differ from For-Profit Businesses?

Both are private organizations, but they have these fundamental differences.

Nonprofits with 501(c)(3) status:

- Primary objective is public benefit.
- Must be organized and operated for charitable, educational, religious, scientific, or literary purposes.
- Must reinvest net earnings back into the mission (but do need net earnings to be able to continue their work).
- In exchange for this public benefit, they are exempt from federal and state income taxes, most are eligible to request refunds of sales taxes they pay, and most are exempt from property tax on land and buildings they own and operate.
- Donors may deduct some of their contributions from the federal and state income taxes.
- Financial data on IRS forms is public information.
- Allowed to advocate and lobby, but prohibited from partisan politics.

For-profit businesses:

- Primary objective is profit.
- Net earnings may be distributed to shareholders, employees, owners, and other private individuals.
- Pay taxes on income, purchases, and property owned.
- Financial data is private except for publicly-traded corporations
- May engage in partisan politics.

For more information, David Heinen, Vice President Public Policy and Advocacy, North Carolina Center for Nonprofits, 919-986-9224 (cell) or dheinen@ncnonprofits.org.