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Instead of Joining a Nonprofit Organization, Why Not Establish One?

Roi Vadai and Sasha Bau provide an overview of the requirements to establish and operate a nonprofit organization in the US.

A nonprofit organization is an organization that holds as its primary objective to support an issue or matter of either private interest or public concern. The distinguishing feature from a regular organization is that a not-for-profit is organized for non-commercial purposes. The nonprofits' focus may center on innumerable issues and areas, including arts, charities, education, politics, religion, research, sports or some other endeavor. Nonprofit organizations, sometimes referred to as not-for-profits, may range from grand worldwide organizations such as Red Cross or the Bill and Melinda Gates Foundation to a small community center seeking to raise funds for sporting events for the local high school.

Nonprofit organizations are traditionally formed by incorporating in the state in which they expect to do business. The act of incorporating creates a legal entity enabling the organization to be treated as a corporation under law and to enter into business dealings, form contracts and own property as any other individual or for-profit corporation may do. After having established the not-for-profit organization the next step is to assure that on the federal level the Internal Revenue Service recognizes the newly established organization as a not-for-profit. Accreditation as a nonprofit with the IRS is particularly important because such recognition provides the organization with credibility, allows the organization to enjoy a tax exempt status, allows donations to be deducted from personal tax returns and allows the organization to apply for various grants and public programs.

The most commonly sought tax exemption is the 501(c)(3) status, which is granted to various charitable, non-profit, religious, and educational organizations. Section 501(c)(3) is just one of the tax law provisions granting exemption from the federal income tax to non-profit organizations. The process behind obtaining the 501(c)(3) status with the IRS is complex and time-consuming. The Internal Revenue Service requires voluminous information about the organization, its internal workings, projects, purposes, bylaws, executives, financial projections and budgets and the expected sources of financing. The process of receiving the 501(c)(3) status typically takes 6-12 months.

In addition to Federal 501(c)(3) status, many states require internal registration of charitable organizations. New York, for example, requires every charitable organization that intends to solicit contributions from persons in New York or from a governmental agency, to register with the Attorney General prior to any

solicitation. The Attorney General's Charities Bureau supervises charitable organizations to insure that donors and beneficiaries of those charities are protected and that the funds and other property devoted to charitable purposes are properly used.

As stated above, not-for-profit institutions have general purposes which are religious, charitable, or educational. For example, money or property given to a synagogue, museums, colleges, or a nonprofit hospital is deductible. On the other hand, college tuition, contributions made to a political candidate or a political group or contributions to foreign organizations are not deductible. Many non-US causes incorporate "American Friends of..." organizations, which are independent 501(c)(3) accredited entities which support programs of non-US charities. In addition, the IRS designated various Israeli charities, located in Israel, in which charitable donations are deductible. According to IRS regulations, one is able to deduct contributions to charities which are created and recognized as a charitable organization under the laws of Israel. The amount of the deduction would be the same amount allowed if the charity was formed in the United States, subject to a cap on the maximum amount deductible. It is best to seek advice from a certified public accountant to determine the maximum amount of your deductions for charities located in Israel.

In general, when donating property to an organization, the authorized deduction is the fair market value of the property at the time of the contribution. For example, if the \$2,000 laptop computer which you purchased in 2002 is now worth only \$800, you would be limited to deduct only \$800 from your taxes if you wished to contribute it today to an authorized charitable organization. Deductions for charitable contributions are generally limited to up to 50% of your adjusted gross income (the adjusted gross income is your annual income before taxes minus deductions authorized by the IRS). While there is no set formula in determining the fair market value of property, references to trade organization pricing guides, such as "blue books" for cars, or current pricing for similar used goods provide a good sense for the fair market value. The question to be answered regarding what is the fair market value of the property is typically "at what price the product would be purchased willingly by a buyer if it was not donated to the qualified organization instead."

In many situations, charitable organizations offer services or goods at prices which are higher than fair market value. In this situation, you are allowed to deduct the difference between the actual value of the service or good from the amount you paid. For example, if you paid \$300 for a ticket to a dinner organized by the American Friends of Rabin Medical Center, which has a fair market value of only \$125, then you are only permitted to deduct \$175 from your federal income tax. Typically, charitable organizations list the tax-deductible amount next to the price of a ticket to an event.

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