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Frequently Asked Questions About Nonprofits

Below are answers to some of the most frequently asked questions that we hear about nonprofits. Click on the question to reveal the answer and more resources on each topic.

General Questions

Q: How do you start a nonprofit corporation?

A: The National Council of Nonprofits does not offer technical assistance in starting up nonprofit organizations. It's important to understand the legal requirements in the state where the nonprofit will operate before you begin. Please read our [guidance on starting a nonprofit organization](#). Before you begin the process, research your cause to see if there are nonprofits already established in your area with the same or a similar mission. If so, you might consider collaborating through a [fiscal sponsorship](#) arrangement instead of establishing a new organization. It's also a good idea to contact the [state association of nonprofits](#) in your state for *state-specific* guidance. We also encourage you to subscribe to NCN's [free newsletters](#).

Q: Where can I find a list of all the nonprofits in the US?

A: The IRS publishes a searchable [master list](#) of all nonprofits recognized as tax-exempt by the IRS that can be searched by state. Additionally, Pro Publica offers a [database](#) that can be used to search over 1.8 million tax returns from tax-exempt organizations. These databases are of raw IRS data that show financial details, such as executive compensation and revenue/expenses.

Q: How do I know whether a certain nonprofit is registered and tax-exempt?

A: Nonprofit corporations may be "registered" in the state where they were originally incorporated, and with the IRS, if they are, or were at one time, tax-exempt. So, to learn whether a nonprofit is in "good standing" as a nonprofit corporation in its state of incorporation, you'll need to check with the applicable state agency. To learn whether the nonprofit is "registered" for fundraising solicitation purposes in the state where it operates or other states, you'll have to check with the applicable [state agency that regulates fundraising](#). To learn whether any particular nonprofit organization is registered as a tax-exempt nonprofit, use [EO Select Check](#). You can also look up nonprofits by name from these websites: [GuideStar](#) or [Citizen Audit](#).

Q: What is a public charity?

A: Public charities are those tax-exempt nonprofits recognized under IRS Code section 501(c)(3) that *receive funding from the public at large (as opposed to private foundations that receive their funding from a limited number of sources, typically from interest earned on the corpus of an endowment)*. Financial support for public charities can come in the form of donations from individuals as well as earned income, and from contracts/grants from the government (for services the nonprofits provides for the state/local or federal government), private foundations, corporate foundations, community foundations, donor advised funds, and other nonprofits. Public charities must demonstrate sufficient [public support](#) in order to maintain their favored tax status. Many organizations classified as public charities, such as churches, schools and hospitals, provide services directly to their intended beneficiaries. However, charitable nonprofits can also help other public charities operate by providing financial support or other resources. Note that, [grants to individuals](#) (whether from a private foundation or a charitable nonprofit) must be approved by the

IRS.

Q: Is there a way to search for charitable nonprofits by mission?

A: Yes. The IRS and National Center for Charitable Statistics use [NTEE](#) codes to identify the primary missions of charitable nonprofits. Note that there are over 1.3 tax-exempt organizations registered with the IRS, so your search could be an arduous one! You can [search by NTEE code](#).

Q: What is the difference between a “nonprofit” and an “NGO”?

A: The term "non-governmental organization" was first coined in the Charter of the United Nations in 1945. “NGO” is most often used to refer to a charitable nonprofit that is operating outside the US. An NGO can be any kind of organization, provided that it is independent from government influence and is not organized for personal profit. In contrast, the term “nonprofit” is the term used in the US to refer to organizations that are structured as nonprofit corporations, whether or not they are also designated as tax-exempt by the IRS. Read more about the [origin of the term NGO](#).

Questions about Donations

Q: What are the requirements for acknowledging charitable contributions?

A: It’s good practice to thank your donors for any size gift, but surprisingly, a formal, written [gift acknowledgement](#) is only required by law for contributions over \$250 and quid pro quo contributions. The IRS rules are explained in [IRS Publication 1771](#). Donors, however, expect a receipt for donations *of any size* so they can claim a tax deduction for charitable contributions. We have posted a resource page that explains the rules that apply to [acknowledging donations](#).

Q: What should the gift acknowledgement include?

A: Acknowledgements should include confirmation of the tax-exempt status of the nonprofit, a description of the item(s) donated, the date of receipt, and whether or not the nonprofit provided goods and services in exchange for the donation. Refer to our [resource page on thanking donors](#) for more information.

Q: How do I decide what nonprofit to donate to?

A: What causes interest you? Do you want to support an organization that is seeking the cure to a specific disease? Are you passionate about ensuring there is arts education in schools? Do you want to protect the environment for future generations? Are you hoping to focus your generous gift locally, or nationally, or internationally? Try to identify a few nonprofits with missions that best correspond with your priorities. [Global Giving](#) showcases many charitable causes around the world.

Then, get to know the organization. Visit its website and read whatever you can on the nonprofit. Better yet, go see the organization in action. A review of financial information alone will not tell you the impact that the organization is having in the community. Volunteering for the organization is a wonderful way to determine if the nonprofit is one you want to support.

Q: How do I ensure my donation is spent on the nonprofit's mission, not overhead?

A: Understandably donors want to support a nonprofit's mission, but many don't understand that incurring administrative costs is not bad – instead, those costs are essential for mission advancement. Nonetheless, when you make a donation to a nonprofit, you can signal intent for that donation to be spent in a particular way. However, the *most useful* donation is often an *unrestricted* donation. This will allow the nonprofit to allocate your donation to the area of greatest need. Sometimes applying that donation to an overhead expense (such as a new roof or new computers) can make program delivery more efficient. Don't hesitate to reach out to a nonprofit before making a donation to ask how you can direct your donation to make the most impact.

Q: How does a donor restrict a gift?

There is no magic language or process for restricting a gift. Donors may want to ask the nonprofit whether it has a "gift acceptance" or "gift agreement" policy or template donor letter it would like the donor to use - if not, any written letter expressing the donor's intent will do. However, it is always prudent for donors to discuss their intent for restricting a gift with the nonprofit first, just to make sure the nonprofit is able to honor the donor's intent. Sometimes what a donor desires is simply not possible, for any number of reasons. Rather than putting the nonprofit in the position of returning a gift, it's preferable for the donor to

make sure in advance that the nonprofit understands and is in agreement with the intent. Read background on respecting donor intent, gift agreements, and [ethical fundraising practices](#).

Q: How do I ensure my donation isn't being used for ads for or against political candidates?

A: Be sure that you are donating to a 501(c)(3) charitable nonprofit. [Charitable nonprofits may not engage in partisan election activities](#). There are other, non-charitable, organizations that may participate in such activities, such as 501(c)(4) social welfare organizations. When you read an article about "political nonprofits," they are generally referring to something other than a charitable nonprofit.

Financials

Q: What financial information is available about individual nonprofits?

A: Tax-exempt organizations that [file annual reports with the IRS](#) (referred to as the "IRS Form 990") are required to share the three most recently filed IRS Form 990s upon request. Many nonprofits post them on their website. (You can read about the [public disclosure requirement](#) on the IRS website.) [Citizen Audit](#) and [Guidestar](#) are excellent resources to view financial and other information that charitable nonprofits report each year to the IRS on their annual returns, IRS Form 990. Other types of annual reports may be financial reports that are filed with the state for fundraising purposes, or corporate filings to maintain corporate status at the state level. Those may be available if posted on a state government agency's website. While some nonprofits create a written document to thank donors or describe the organization's accomplishments in a certain year, and may refer to those as "annual reports," there is no federal or state requirement for charitable organizations to create such as report (other than required annual IRS filing, and any state-specific financial report/registration filing, such as for fundraising purposes or corporate status renewal. These requirements vary by state.)

Q: Are there salary surveys/compensation reports for nonprofits?

A: State specific compensation reports are available from many [state associations of nonprofits](#). National salary and compensation reports are typically published annually by [Columbia Books](#), [GrantThornton](#), [GuideStar](#), [The Nonprofit Times](#), and others.

Q: How much should a nonprofit spend on overhead?

A: Whatever is necessary to advance the organization's mission. There is [no set percentage](#) that would indicate that one nonprofit is run any more effectively than another. [Overhead costs](#) are investments in necessary infrastructure, including rent, paying staff, replacing old computers, repairing a leaky roof, etc. A better gauge of an efficient nonprofit is its impact in the community. Read about the [overhead myth](#).

Q: What is an acceptable amount for a nonprofit to pay its CEO/Executive Director?

A: There is no set amount that is right, or wrong. A nonprofit is like any other employer and needs to pay competitive wages to attract and retain quality employees. As nonprofits work to improve communities, they require leaders and staff with the right skills and expertise to accomplish the nonprofit's mission. It is the [responsibility](#) of the Board of Directors to evaluate and set [appropriate compensation](#) for the CEO/Executive Director of the organization.

Read about [managing nonprofit employees](#).

Ethics and Oversight

Q: What's the best way to determine whether a nonprofit is a legitimate charity?

A: You can check the IRS [Select Check](#) website which will help you confirm whether the organization is recognized as tax-exempt by the IRS under Section 501(c)(3) or another section.

Q: I have a concern about a nonprofit that I think is doing something wrong. Who can I report this to?

A: If you have concerns that a nonprofit is acting unethically you can contact the [charity regulator](#) in the state where the nonprofit is operating. (The National Council of Nonprofits does not monitor or regulate nonprofits. That is the role of state charity officials.)

Filing a written complaint may cause your concerns to be investigated, which may then trigger corrective action, as applicable.

Q: There is someone posing as a charitable organization that I don't think is a legitimate charity. What should I do?

A: There is a [state charity official in every state](#) that has authority to regulate and investigate charities that, among other things, divert charitable assets to private interests and/or are engaged in fraudulent fundraising. We encourage you to share your concerns with the state charity official in your state (or the applicable state(s) where the conduct is happening). If social media is involved the conduct may be of interest to more than one state's charity official since social media messages cross state lines.

Miscellaneous FAQs

Q: How do I know whether an employee is "exempt" or should be paid overtime?

A: Misclassification is one of the most common mistakes made by nonprofit employers and may result in harsh IRS penalties. The National Council of Nonprofits provides guidance on [exempt versus non-exempt classification](#) issues, as well as [tips for managing nonprofit employees](#).

Q: Does our nonprofit have to file anything annually? What is a Form 990?

A: The IRS Form 990 is the tax form that all tax-exempt nonprofits must file with IRS annually. There are [multiple types of 990 forms](#), so make sure your nonprofit files the correct form. Read about [annual filing obligations](#).

Q: Can our nonprofit vote using email?

A: State law will determine whether or not your nonprofit may take action via an email vote. Many state nonprofit corporation laws require that corporate actions make only take action through methods that allow each board member to “hear” one another or “communicate concurrently” (i.e., conference call or video chat). Consequently, in those states, a vote using email will not be legitimate. Knowing what your state permits is key.

Q: Where can we obtain insurance for our nonprofit?

A: We encourage you to connect with the [state association of nonprofits](#) in your state that is likely to have relationships with brokers and agents who are experts in nonprofit insurance products.

Also, the [Nonprofit Risk Management Center](#) is a resource for all nonprofits on all things relating to risk management, insurance, and insurance audits/assessments. We encourage you to explore the website to access many free resources, such as several interactive tutorials and a free newsletter.

Q: How can we obtain a new copy of our nonprofit’s determination letter?

A: You can send a written request for a duplicate copy to the IRS, Exempt Organizations division. The IRS generally takes a few months to respond. You should include the EIN number and name of the organization exactly as originally filed. Explain that you are writing to request a copy of the organization’s Determination Letter. Assuming that the organization is indeed tax-exempt and has filed annual reports with the IRS (Form 990) you should be able to pull all the information needed for the letter from copy of the IRS Form 990 posted on [Citizen Audit](#) or [Guidestar](#). We recommend that if your nonprofit has a website, it post a copy of the IRS Determination Letter on its website as a demonstration of the nonprofit's commitment to transparency. Read about similar [transparency practices for nonprofits](#).

Q: What is the right amount of cash for a nonprofit to have “in reserve”?

A: There is no magic number or ratio. Each nonprofit needs to analyze what cash is needed for its own operations. See our resources to [help nonprofit boards understand operating reserves](#) and craft appropriate written policies for their organizations.

Q: Can a nonprofit fundraise before it has tax-exempt status?

A: A nonprofit that is not yet recognized as tax-exempt by the IRS may fundraise, but it may not tell donors that their contributions are tax-deductible – because they aren't until the nonprofit has received a determination of tax-exemption from the IRS. So that contributions can be deductible to donors, some nonprofits that are not-yet tax exempt (and some that are) seek a [fiscal sponsor](#). Fiscal sponsorship is ideal for projects or organizations that have begun the filing process to become a 501(c)(3) charitable nonprofit organization but have yet to receive official exempt status from the IRS. Establishing a fiscal sponsorship allows those not-yet-exempt organizations to accept tax deductible donations and begin to raise funds through their fiscal sponsor.

Q: What are the steps to take to close a nonprofit?

A: Before winding down the operations of a nonprofit, we encourage you to review state law requirements that are set forth in your state's nonprofit corporation law, as well as to seek advice from an accountant or legal advisor in connection with filing the organization's final annual report, the IRS Form 990. See our additional [resources on dissolving a nonprofit corporation](#).

Q: How do I join the National Council of Nonprofits?

A: Individual nonprofits join their local [state association of nonprofits](#). By joining a state association of nonprofits, you or your nonprofit will automatically be an affiliate member of the National Council of Nonprofits, part of the largest nonprofit network in the country. We encourage you also to subscribe to our [free newsletters](#).

Additional Resources

- [Common Myths about Nonprofits](#)