Various Forms of Nonprofit Statuses for Ranchers & Farmers

JANUARY 13, 2016

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Announcements:

- All attendees are on mute
- Q&A at the end:
  - If you have any questions, please type it into the Question box and we will answer questions at the end of the presentation.
- Recording and attachments can be downloaded from www.firstnations.org/fnk next week.
FOR PROFIT OR NONPROFIT?

AN OVERVIEW OF 501 AND 521 AGRICULTURAL ORGANIZATIONS

PRESENTED BY TIFFANY HAMMER

JANUARY 13, 2016

IN COLLABORATION WITH FIRST NATIONS DEVELOPMENT INSTITUTE
WHAT IS A NONPROFIT?
GOVERNMENT

• **Examples:** Federal agencies, tribal governments, state governments

• **Revenue (income) comes from taxes paid by citizens**

• **Government uses tax revenue to provide services for the people**
FOR PROFIT ORGANIZATIONS

- **Examples of For Profit Businesses:** Pfizer, John Deere, Individual Producers (you and me)

- **Revenue comes from charging for the product or service it sells**

- **Leftover money after expenses = Profit**

- **Owners get to keep/share profits**

- **Success is judged by “The Bottom Line”**

- **Must pay taxes on business income**
NONPROFIT (TAX EXEMPT) ORGANIZATIONS

- EXAMPLES: SCHOLARSHIP FOUNDATIONS, CONSERVATION DISTRICTS, CATTLE ASSOCIATIONS, FARM CO-OPS, UNIONS
- PROVIDE A SERVICE FOR THE “PUBLIC GOOD”
- REVENUE COMES FROM DONATIONS, GRANTS, MEMBERSHIP DUES, OR FEES CHARGED FOR SERVICE

- EXEMPT ORGANIZATIONS GENERALLY DO NOT PAY TAXES ON REVENUE (INCOME)
- NONPROFITS MAY HAVE MONEY LEFTOVER AT THE END OF THE YEAR, BUT IT’S NOT PROFIT
- NO ONE GETS TO KEEP LEFT OVER MONEY; IT MUST BE USED TO EXPAND PROGRAMS, INVEST IN EQUIPMENT, OR BE PUT INTO SAVINGS (EMERGENCY FUND, CAPITAL FUND, ENDOWMENT)
- SUCCESS IS MEASURED BY HOW WELL THE ORGANIZATION SERVED ITS MISSION
STARTING A NONPROFIT

- Evaluating the decision to formalize your association
- Formation under state or tribal law (if your tribe has a corporate code)
  - Factors in choosing State or Tribal jurisdiction
  - Incorporation vs. LLC formation
  - Filing your Articles*
- Next steps: tax exempt status
  - Which 501c (or 521) status is best for my organization
501 BASICS...

- **Applying for 501(c) status** = asking IRS for permission to not pay taxes on revenue
  - Benefits differ depending on type of 501(c) org
  - All 501’s still pay payroll taxes for employees
  - Board members and employees still pay personal income taxes
- **501(c) refers to Section 501 in the IRS Tax Code**
  - 501 is the section governing tax exempt organizations, (c) is the chapter
  - Each number following the (c) refers to a different type of Exempt Organization
  - Each org has different benefits and requirements.
  - We will discuss 501(c)(3), (4), (5), and 521(a) organizations in this webinar
501(C)(3) ORGANIZATIONS

- **Most common type of 501(C) org**
- **Must engage only in activities that further its “charitable purpose”**
- **Income is exempt from taxation**
- **Donations made to 501(C)(3) orgs are tax deductible**
- **Lobbying (influencing laws) is restricted**

- **Support (or opposition) of political candidates and elections is prohibited**
- **Most government and corporate grant funders require that you are 501(C)(3)**
501(c)(4) ORGS

- CIVIC ACTION ORGS, GRASSROOTS LOBBYING AND ADVOCACY ORGS
  - EX: ROTARY AND LIONS CLUBS, POLITICAL ADVOCACY ORGS
- INCOME IS GENERALLY EXEMPT FROM TAXATION (WITH SOME EXCEPTIONS)
- DONATIONS TO 501(c)(4) ARE NOT TAX DEDUCTIBLE
- LOBBYING ALLOWED
- CAN PARTICIPATE IN POLITICAL CAMPAIGNS AND ELECTIONS
- CAN RECEIVE UNLIMITED DONATIONS FROM INDIVIDUALS, CORPORATIONS, AND OTHER ORGS
- DOES NOT HAVE TO DISCLOSE DONOR IDENTITIES – MAKES THEM PREFERABLE TO SUPERPACS
501(C)(5) ORGS

- **Agricultural Orgs and Unions**
  - **EX: Rocky Mountain Farmer’s Union**
- Duty to serve its members first
- Income is generally exempt from taxation
- Donations are NOT tax deductible
- May make unlimited corporate, individual, nonprofit, or union contributions
- May pay benefits or provide financial assistance to improve conditions of those engaged in agricultural activities, as long as benefit is available to all members
- Lobbying allowed
- Can participate in political campaigns and elections
- Revenue is generally through membership dues or fees
521(A) ORGS

- **Farmer’s co-ops**
  - Marketing the products of members at retail price and returning revenue to members
  - Purchasing supplies and equipment for the use of members at wholesale cost

- **Income is generally exempt from taxation**

- **Donations are not tax deductible**

- **Relies on membership fees as income**

- **Not meant to be used as a lobbying org**
CHOOSING THE 501(C) THAT BEST FITS YOUR ORG

- **What is your organization’s purpose?**
- **How does your org plan to generate income?**
- **Can and will your members pay annual dues or fees?**
- **Is lobbying a major part of your organization’s mission?**
- **Does your org intend to intervene in elections (political candidates)?**
# 501’s at a Glance

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<th>Organization Type</th>
<th>Income Tax Exempt</th>
<th>Donations Tax Deductible</th>
<th>Eligible for Grant Funding</th>
<th>Income from Membership Dues</th>
<th>Lobby Legislation</th>
<th>Influence Elections</th>
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QUESTIONS?

TIFFANY HAMMER may be reached at BuildingStrongNonprofits@gmail.com. Follow up inquiries are always welcome.

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Future Webinars:

- Business Planning for Native American Ranchers
  Date: March 16, 2016
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THANK YOU JOINING OUR WEBINAR TODAY!
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