

LEGAL SERVICES OF EASTERN MISSOURI

COMMUNITY ECONOMIC DEVELOPMENT
MICROENTERPRISE PROGRAM

NONPROFIT VERSUS FOR PROFIT CHECKLIST

Now that you have a business idea, how do you decide whether to be a nonprofit or a for profit?

Nonprofit



Nonprofits are founded to serve a public humanitarian or environmental need. The nonprofit's resources are used in support of programs designed to help fulfill the goals and purpose of the organization. The founder and board members cannot personally benefit from the organization.

For-Profit



Most businesses are for profits enterprises and are created for the benefit and enrichment of the founder, owner, and stockholders.

Nonprofit



Funding generally comes from grants and donations. Any income received in excess of the budget is reinvested into the nonprofit.

Other funding sources can include:

- Fundraisers
- Sales of merchandise or branded clothing (can be subject to taxes in some cases.)



To receive funding, generally required to register for tax exemption, typically under section 501(c)3 of the tax code.



Controlled by a board of directors and must be transparent as it is a public charity.

May have members who support the organization and vote for board members.



There are no investors or owners to which the board and officers answer. Instead the nonprofit must be run for an approved public purpose. Donors typically want to know their donations are being utilized in a responsible manner.

For-Profit



Funding typically comes from the revenues of the business and any startup capital invested in the business.

Income received in excess of revenues can either be retained or distributed to the owners and/or shareholders.



Typically formed as an LLC, a Partnership, or a Corporation. Each has advantages and disadvantages

Subject to Income Tax. Either as a:

- Corporation - The Company and its shareholders are both subject to income tax on their earnings.
- Pass Through Entity - The income of the company is treated as income of the owners.



A variety of management structures are available:

- Can be member or owner controlled
- Controlled by Board of Directors
- Run by one Member/Owner for the benefit of all.



Managers are directly responsible to owners or shareholders and must run the business for their benefit.

Ownership rights can be bought, sold, or inherited.

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Disclaimer:

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 ced@lsem.org