



For Profit vs. Nonprofit

For Profit Child Care Center	Nonprofit Child Care Center
<p>Control The owner/shareholders control the organization.</p> <p>Distribution of Profits A for profit business is organized to make a profit. Excess income or profit can be distributed to the owner/shareholders.</p> <p>Taxes For profit businesses must pay federal and state corporate income taxes, payroll taxes, sales taxes, and property taxes.</p> <p>Dissolution or Sale of Business Assets A private business can be sold for profit and the proceeds distributed to the owner(s). When a for profit entity goes out of business, its assets can be liquidated and the proceeds distributed to the owner/shareholders.</p> <p>Funding The owner/shareholders usually contribute their own funds to the business. These contributions are not tax deductible and may be at risk if the business does not do well. The business has access to funding from shareholder equity and/or business loans depending on the financial condition of the business.</p> <p>External Accountability The finances of private businesses are scrutinized less than the finances of nonprofits.</p>	<p>Control The Board of Directors controls the organization. This board is generally made up of representatives from the broader community.</p> <p>Distribution of Profits A nonprofit entity is organized to further a mission that benefits the community. Any profit or excess income must be used <u>only</u> to further the mission and cannot be distributed to individuals.</p> <p>Taxes Nonprofit entities are exempt from federal and state corporate income tax. They may be exempt from sales taxes paid to stores for goods and services. They may also be exempt from property taxes. However, they are subject to payroll taxes.</p> <p>Dissolution or Sale of Business Assets When a nonprofit organization sells its assets, the proceeds of the sale must be used for the organization's charitable mission. If the organization is dissolving, any remaining assets must be given to another nonprofit.</p> <p>Funding Nonprofit entities have access to government funds and grants and/or private donations and grants from foundations and corporations. These donations are tax exempt. However, funding can be limited and grants are very competitive and time consuming to pursue. Depending on their financial condition, nonprofit entities may also have access to conventional loans as well as loans available only to nonprofits.</p> <p>External Accountability An organization must meet very stringent standards of proof before being certified as a tax-exempt entity by the IRS. Not until the organization is certified by the IRS can it participate in the tax exemption benefits. The finances and management of a nonprofit entity undergo a much higher level of scrutiny than a for profit business.</p>

Always consult with a lawyer to determine the best structure for your business entity.

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Important Questions to Answer before Deciding on Business Structure

1. Whom do I want to serve?

- a. Can the people I want to serve pay for my services?
- b. Can they pay for part of the services?
- c. If I do not provide the services, will the target population have to do without these services?
- d. Will they be harmed without access to these services?
- e. Will anyone involved in running the organization personally benefit from the activities of the organization?

2. Where do I expect my funding to come from?

- a. How much of the funding I need to operate will be able to come from the people I serve through fees for services?
- b. Will I have to rely on individual donations, corporate and foundation grants, or governmental grants in order to provide the services?
- c. Is the mission of the organization compelling enough that people and funders will want to donate to it not just once but over several years?

3. How do I want the organization to be structured?

- a. As the founder and director, how much control do I want over the organization?
- b. Whom do I want deciding the day-to-day activities?
- c. How involved do I want the Board of Directors to be?
- d. Can a strong Board of Directors representing the broader community help me better serve my target population?
- e. How much flexibility and control do I want in choosing what activities the organization does?

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