



Doing Good or Doing Business, Or Both?

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Whether it's a nonprofit acting like a for-profit, or a for-profit acting like a nonprofit, to survive in today's environment both nonprofits and for-profits are borrowing ideas from each other. For-profits are eager to appear "mission based" to consumers who may be more likely to purchase products that claim to be supporting charitable causes. Nonprofits are eager to fashion their operations along the lines of successful businesses in order to compete in the open marketplace for dollars—and donors. Whether it's revenue from a license agreement with a for-profit, or starting a local business to provide specialized services in the community, nonprofits are supplementing their income as well as their missions by engaging in all sorts of business transactions. What if a business venture does not necessarily dovetail with the nonprofit's current mission? Is that allowed? Perhaps, as long as the commercial unrelated activity does not dominate the nonprofit's activities and overshadow its charitable focus. Income received from such activities may be taxable, even if the income is used to support the nonprofit's mission.

Most nonprofit leaders are familiar with unrelated business income and whether or not it is taxable ("UBIT"), but what about the risks of engaging in commercial activity that have nothing to do with generating income and incurring UBIT—such as partnering with (or being sponsored by) a for-profit that has a marketing style that is not consistent with the nonprofit's values? Should your nonprofit endorse a particular product just because it provides assistance to those your nonprofit serves? Does your nonprofit conduct due diligence before accepting corporate donations or agreeing to partner with a business in the community? What if the business is owned by a family member of a board member, but no one batted an eye?

Commercial activities offer many rewards—and also present a wide range of possible risks. Wouldn't you rather know what the risks are, before you sign on the dotted line?

The Nonprofit Risk Management Center welcomes your questions and comments at 703.777.3504 or info@nonprofitrisk.org.