



HOW TO: FOR-PROFIT V. NON-PROFIT

To Profit or Not to Profit ... Is NOT the Question

Let's say you want to start an Empowerment Self-Defense (ESD) practice. You want to empower women who have been abused so that they can walk through life with confidence and happy hearts. You want to make the world safe for as many women as possible. And let us suppose that you would like to shift your career from medical records specialist to empowerment self-defense professional, which means earning enough money to support yourself working in ESD. So you want to save the world *and* make a decent living at it. How do you go about making this happen?

You have already decided that you want to work for yourself, create your own ESD organization. Among the things you will need to think about first is whether to form a non-profit or for-profit. Whichever route you decide to take, you *will* get paid. So, what is the difference?

Some things to think about: 1) What do you want to accomplish with your new organization? 2) What will be your practice's primary objectives and its mission? 3) Who do you want to serve, what type of clientele or participants? 4) How much pro bono work would you like to do? 5) Do you need to be able to support yourself on what you earn from this venture? 6) What kind of image will you want to project with your ESD practice? 7) Will you want your organization to be a public voice for change?

If your primary objective was only to make a living, you would focus solely on how best to generate revenue and start a for-profit. If you wanted to provide ESD training at low cost or for free and income was inconsequential, you would think about the type of participants you want to attract and form a non-profit. If you would like your new practice to be your sole source of income *and* you want to give back to the community, you will need to find balance and the choice between for-profit and non-profit requires a deeper dive.

Let's dive in.

What's the Diff?

501(C)(3)s, (C)(4)s, (c)(6)s, and So On

Before we jump into the differences between for-profits and non-profits, let's take a quick look at non-profits. A non-profit organization is either a corporation (including incorporated LLCs), an unincorporated association, or a fund or foundation that has been granted tax-exempt status by the Internal Revenue Service. Note that sole proprietorships, partnerships, individuals, and "loosely associated groups of individuals" will not qualify. The IRS has classifications for no less than 29 types of nonprofits, for instance 501(c)(7)s are social and recreational clubs, 501(C)(13)s are cemeteries, 501(c)(19)s are veteran organizations, 501(c)(21)s are black lung benefit trusts, and the list goes on.

The most commonly recognized types of non-profits are 501(c)(3)s, 501(c)(4)s, and 501(c)(6)s. The Association of ESD Professionals, for example, is a 501(C)(6) because it is a "business league" or "an association of persons having some common business interest, the purpose of which is to promote that common interest....". 501(C)(4)s are for civic leagues and social welfare organizations, including political organizations—an example is the Brady Campaign which was organized to bring about public policy changes with respect to gun control and is allowed to engage in political activity). The type most relevant to the ESD community is the 501(c)(3) organization, otherwise known as a charitable organization.

The two biggest differences between 501(c)(3) organizations and the groups organized under the other 501(c) sections are 1) that donations to 501(c)(3)s are tax deductible as charitable contributions whereas donations to the others are not and 2) c501(c)(3)s' political activity (such as advocacy, lobbying, and campaigning) is severely limited whereas the other 501(c) organizations' political activity is not.

For everything you ever wanted to know about non-profit organizations, check out [IRS Publication 557](#).

Not to complicate matters, but there is also something called a not-for-profit. A not-for-profit is different from a non-profit because it does not generate revenue. Non-profits generate revenue.

And for an in-depth look at different for-profit structures, please visit our [How To ... Form Your ESD Business](#).

Non-Profit v. For-Profit

If non-profits generate revenue, what makes them different than for-profit businesses? It all comes down to purpose, the reason the organization was formed and the mission it serves.

It is not that one turns a profit and the other does not. In fact, both must generate profits, or revenue, in order to remain viable. The first difference is in what happens to the profits generated. In a for-profit, profits are generated for and returned to shareholders. In a non-profit, all profits are put back into the business.

In the world of empowerment self-defense, this difference is relatively small. When the corporation doesn't have thousands of shareholders but instead is owned by one or two people, pouring profits into shareholders v. the company is indistinguishable; shareholder and CEO are

often one and the same. So for most ESD professionals, what is the meaningful difference between starting a for-profit and a non-profit if not ... profit?

It comes down to this:

1. Purpose
2. Venture Capital v. Donations
3. Taxes
4. Profits & Compensation
5. Advocacy & Lobbying
6. Image & Audience

1. Purpose || It's the Mission that Matters

What is the purpose of a for-profit business that sells solar power? Is it to save the planet from global warming by reducing our dependence on fossil fuels? Not exactly. That may be one of its goals, but its purpose is to make money for its shareholders. What is the purpose of a non-profit organization that buys land in order to preserve it forever? Its purpose is to serve a public interest and further a cause, in this case the preservation of open space and the species that rely on it. It still needs to generate revenue, but all of the revenue pays to run the organization (finding preservable land for sale, finding and convincing philanthropists to donate money to buy the land, salaries, benefits, overhead, etc.).

For ESD professionals, if you would like to make a living teaching ESD *and* you would like to do good in the world, you really could go either way. You could describe the main purpose of your organization as generating profits for shareholders (if you are starting this business on your own, that could be just you) even as you prevent violence through your trainings; or, you could frame the purpose of this new enterprise as preventing violence and therefore serving a social purpose and societal good even as you charge for the trainings and generate enough revenue to pay yourself a livable salary.

We realize that this doesn't get you much closer to a decision yet, so please read on!

2. Venture Capital v. Donations || Alms for the Enterprising! Alms for the Enterprising!

How do you feel about asking for money? You might have to do it whether you start a non-profit or a for-profit, but not to the same extent. The difference is how often and from whom you raise the money and whether and how you pay it back.

With a for-profit, you may only need to call on a bank or venture capital firm once, just to get your business off the ground. You may never need to turn to bankers or investors again. However, the money you raise comes with a catch. Your investors may not ask you to pay it back, but they will demand a return on their investment, usually in the form of increased stock prices. And any loan you get from a bank includes a return envelope; you'll have to pay it back, with interest.

If you run a non-profit, on the other hand, fundraising and grant applications could very well be the cornerstone of your revenue plan. In fact, some executive directors of 501(c)(3) non-profits spend the vast majority of their time talking to donors and potential donors—fundraising is a way

of life if you are running a 501(c)(3). On the up side, the funding you bring in will come in the form of a gift, meaning you will not have to pay it back and interest payments won't eat up your budget. Of course, just because you don't have to pay back the money does not mean it doesn't come with strings. Whether it is grant funding with specific requirements for how and when you spend the funds or contributions from donors who have lots of ideas about how you should run your business and expect to be heard, you will always have someone to answer to.

3. Taxes || There's One for You, Nineteen for Me 🎵

The biggest and most obvious benefit of creating a charitable non-profit organization is that you will not owe the IRS any money on the revenues you generate. To obtain tax-exempt status as a 501(c) organization, you will need to apply to the IRS. If you are applying to become a (c)(3), you will use [Form 1023](#). Once you are granted tax-exempt status, you are free from paying federal taxes. Yay! But remember, you still need to file an information return every year. Depending on how much revenue you generate, you will file a [Form 990](#), [990-EZ](#), or, if your gross receipts come to \$50,000 or less, you can file the [990-N](#) postcard. If you are running behind and need more time to file, you can use [Form 8868](#) to request a 6-month extension. If you forget to file or missed a year or two because you were unaware that you needed to file (of course you would never purposely avoid filing your taxes!), your organization may be facing penalties and income tax liabilities. If you fail to file your return three years in a row, your organization's non-profit status will be automatically revoked.

If tax forms baffle you, the IRS has produced a [slideshow](#) on how to complete the Form 990. You can find the whole 990 series of forms [here](#). The filing deadline for 501(c)(3) organizations is the 15th day of the 5th month after the close of your organization's fiscal year. If your business year ends December 31, you would file your tax return by May 15.

4. Profits & Compensation || Money

Whether the company is run by one person with one employee or it has a CEO, CFO, COO, CIO, and thousands of employees, its purpose is to make a profit for its shareholders. Profits are distributed to shareholders, whether there are two or two million. In a non-profit, revenues generated are poured back into the organization; there are no shareholders.

Now, both types of businesses will invest money back into the business. For-profits and non-profits will invest revenue into new programs, materials, marketing campaigns, equipment, and real estate. For-profits will ensure that shareholders see some profit before large investments are made, whereas non-profits will only look at the needs of the organization and put all excess revenue into fulfilling those needs.

Compensation for Executives

You may ask, how does my salary fit into this? Salaries in both kinds of businesses are subject to review by the Board of Directors. In a for-profit, the Board is going to ensure that the interests of shareholders are protected (shareholder interests = PROFITS). If the Board thinks it is reasonable for a CEO to make tens of millions of dollars in salary, benefits, bonuses, and the such because the shareholders are happily profiting, so be it. In a non-profit, however, salaries have to meet two criteria: they have to be reasonable and the Board has to approve them. There is a lot of leeway in what constitutes “reasonable compensation,” but red flags will start to fly over at the Internal Revenue Service if salaries are disproportionate to compensation for “like services by like enterprises under like circumstances.” In addition, the IRS imposes an excise tax on a non-profit executive with an annual salary in excess of \$1 million (or, as Austin Powers says: ONE ... MILLION ... DOLLARS!). When it comes to your new ESD practice, the take-away here is that you won’t have to unduly restrict your salary if you choose to run your business as a non-profit organization.

Compensation for Directors

When it comes to boards of directors, there is a big difference between for-profits and non-profits. Generally, directors for for-profits are compensated for their participation on the board of directors and reimbursed for attendant expenses. They are paid in cash, company stock, and/or stock options. Directors for nonprofit boards, however, usually do not receive compensation and often are asked to cover their own expenses for things like travel and conferences. To add insult to injury, in the case of 501(c)(3) organizations, often board directors are also tasked with fundraising duties and asked to make donations to the organization.

5. Advocacy & Lobbying II Money

The rules around corporate political participation are complex and very different for non-profits and different again for 501(c)(3)s. If this is the path you are taking, your organization’s participation in all things political will be limited. A charitable organization cannot participate in a “political campaign for or against any candidate for public office” at all, and it cannot attempt to influence legislation as “a substantial part of its activities.”

The first part is absolute. If your 501(c)(3) organization participates in a candidate’s political campaign, your organization will be disqualified from tax-exempt status. The part referring to advocacy (this includes grassroots advocacy) for or against legislation, however, is more complicated. The question is, what does a “substantial part of [your organization’s] activities” mean? A full answer would take too much space to flesh out here and there would be serious risk of nodding off. Instead, we’ll summarize and recommend that you seek legal advice if you are planning on doing any advocacy work.

“Substantial part” can be measured in terms of the amount of money you spend on the advocacy or by a combination of the time devoted to the activity (by both compensated and volunteer workers) and the expenditures devoted to it. If you exceed the limits, you can lose your tax-exempt status.

Note that no matter what, several layers of campaign-finance regulations dictate all political activity by individuals and companies, so always be sure to get advice if you are going to be

contributing money, time, or services to political campaigns, independent expenditure committees, political action committees, and so on.

6. Image & Audience II Who are you serving?

The image your organization projects has a significant impact on your business. The image you project to the public matters as does the image you project to particular audiences (by audiences, we mean potential customers, clients, students, subscribers, participants—the people to whom you would like to teach ESD). There are many types of messages a business or organization may want to convey relating to quality, cost, service, convenience, trustworthiness, familiarity, consistency, social/civic engagement, and so on. Which messages you prioritize depend on your primary mission and targeted audience. For instance, if you are selling expensive perfume, you will probably focus on quality, company history, and not at all on cost. If you are opening up a McDonalds franchise, you might focus on convenience and consistency plus cost and service. If you are providing ESD classes, you might focus on safety and trustworthiness as well as cost and equity and diversity.

The structure of your business itself conveys a message and can impact your organization's image. There are pros and cons for for-profits and non-profits—stigmas you'll have to overcome as you enjoy the positives. This is not something on which we'd recommend basing your entire decision, but it is something to throw into the mix.

So, What Am I Supposed to Do?

Even if you are running a 100% volunteer organization, there is always someone who needs to get paid, from software and app companies to the people who sell pool noodles and mitts to the venue operators who rent you space for an annual training conference. And you! You should get paid for your hard work. The point being, whether you run a for-profit or a non-profit, your business will generate revenue and those funds will make your ESD practice possible. The question is not about whether you will make a profit. The questions are: What is the driving purpose of your organization? How much time do you want to spend fundraising? Are income taxes a factor for your business? Do you want your organization involved in advocacy, lobbying, and political campaigns? and How will this choice impact the image you want to project?

We hope that this article provides some guidance as you answer these questions and make this decision. Wherever you land, we are excited for you and cheering you on. We want you to succeed and fulfill your dreams. And we believe that more people choosing to teach ESD means more people learning ESD and empowering themselves to walk through life with confidence, pride, and joy.

Don't forget to visit our website at www.esdprofessionals.org, and please check out our other [How-Tos](#) and keep an eye out for new ones.

Good luck!

Sources

“Board of Directors for Nonprofits,” Kindful, a Bloomerang Project, <https://kindful.com/nonprofit-glossary/board-of-directors/>

“Compensation for Nonprofit Employees,” Council of Nonprofits, <https://www.councilofnonprofits.org/tools-resources/compensation-nonprofit-employees>

“Federal Filing Requirements for Nonprofits,” National Council of Nonprofits, <https://www.councilofnonprofits.org/tools-resources/federal-filing-requirements-nonprofits>

“For-profit and Nonprofit Boards of Directors: Similarities, Differences, and Keys to Success,” Acorn Advisors, May 1, 2016, <https://acorn-advisors.com/for-profit-and-nonprofit-boards-of-directors-similarities-differences-and-keys-to-success/>

“Nonprofit Organization (NPO),” TechTarget’s *What Is?*, Katie Terrell Hanna, <https://www.techtarget.com/whatis/definition/non-profit-organization-NPO>

“Nonprofit Organization (NPO),” Investopedia, Will Kenton, March 15, 2022, <https://www.investopedia.com/terms/n/non-profitorganization.asp>.

“Nonprofit vs. Not-for-Profit vs. For-Profit: What's the Difference? These terms have different implications for your taxes, corporate governance and business activities,” US Chamber, Emily Heaslip, April 20, 2021, <https://www.uschamber.com/co/start/strategy/nonprofit-vs-not-for-profit-vs-for-profit>

“Tax-Exempt Status for Your Organization,” IRS Publication 557, <https://www.irs.gov/pub/irs-pdf/p557.pdf>

“What is a Nonprofit? Definition and Meaning,” Market Business News, <https://marketbusinessnews.com/financial-glossary/what-is-a-nonprofit-organization-definition-and-meaning/>

Legal Disclaimer

The information provided in this article and on the Association website does not and is not intended to constitute legal advice, and the information and links are for general informational purposes only. It is possible that some of the information provided in this article and on the Association website is not the most up-to-date information or specific to your geographic location (for instance, please note that state laws vary). In addition, this article and the Association website contain links to third-party websites—these links are for the convenience of the reader and they do not indicate endorsement of the linked companies, their websites, or the information contained on their websites. Readers of this website should contact an attorney to obtain advice with respect to any particular legal matter, including choosing how to organize and structure their business, and should contact an attorney or accountant for information regarding federal and state taxes (note that state taxes vary from state to state). In addition, all the information provided in this article is intended to apply to companies formed in the United States.