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Myths About Nonprofits

While nonprofits are all around us, there are common misconceptions about what nonprofits are and what they do.

Myth: Nonprofits can't earn a profit

Reality: The term "nonprofit" is a bit of a misnomer. Nonprofits can make a profit (and should try to have some level of positive revenue to build a reserve fund to ensure sustainability.) The key difference between nonprofits and for-profits is that a nonprofit organization cannot distribute its profits to any private individual (although nonprofits may pay reasonable compensation to those providing services). This prohibition against "private benefit" is because tax-exempt charitable nonprofits are formed to benefit the public, not private interests. For more information, see this [IRS guidance](#) [1]. Learn about what charitable nonprofits need to do to [maintain their tax-exempt status](#) [2].

Myth: A well-run nonprofit should have low "overhead" costs

Reality: Operating costs, such as paying utility bills, rent, salaries, and investing in office equipment are referred to by a variety of names, including "overhead," "administrative costs," and "indirect costs." While the terminology varies, one thing does not: these costs are essential to delivering on a nonprofit's mission, and have no relation to the level of effectiveness or the outcomes a charitable nonprofit may deliver.

Nonprofits are encouraged to join our campaign to "[#OwnYourOwnCosts](#) [3]" and help to educate funders and donors about the true costs of delivering services. If your nonprofit requires higher overhead costs to deliver services, show your supporters how those core infrastructure costs are essential and advancing your mission.

Myth: Nonprofits don't have paid staff; they only use volunteers

Reality: According to the Bureau of Labor Statistics, in 2012, nonprofits employed 11.4 million people - that's 10.3 percent of private employment in the United States!

Myth: Nonprofits can't lobby

Reality: Every charitable nonprofit can and should make its voice heard on issues that are important to its mission and to the people or cause the nonprofit serves. As advocates, nonprofits are sometimes required to speak up about policies, laws, and regulations; lobbying by nonprofits is permitted by law. However, tax-exempt charitable nonprofit organizations are NOT permitted to engage in partisan political activity, such as supporting or opposing any candidate for public office. For more information on lobbying, see our [advocacy resources](#) [4].

Myth: Nonprofits get most of their funding from foundations

Reality: Foundation grants represent only a small part of the total amount of dollars contributed each year to the charitable nonprofit community. Private philanthropy, which includes both donations from individuals and grants from private and corporate foundations, represents only 12.3% of the total annual revenue to the charitable nonprofit community, and of that, the majority is from contributions from individuals.



Data Sources: The Nonprofit Sector in Brief, National Center for Charitable Statistics, 2015 (2013 data); Giving USA 2014 (2013 data); Foundation Center report (2013). Excludes non-reportable revenue and giving to religious institutions.

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Myth: Charitable giving incentives only benefit wealthy individuals and elite institutions

Reality: All charitable nonprofits benefit from public support and donations, and most depend on private donations to serve their communities. While an individual taxpayer only receives a partial tax benefit for charitable donations, the community served by the charitable nonprofit receives the full value of every dollar. Any cap on giving incentives negatively affect the community. For more information see our resources on [charitable giving incentives](#) [5].

Myth: Most nonprofits are large and have many resources

Reality: In fact, most nonprofits are small in both budget size and numbers of employees. While large, well known nonprofits, such as the Red Cross, have high visibility, those nonprofits are actually not representative of the charitable nonprofit community as a whole. *82.5 percent* of all reporting public charities had annual revenue of under one million dollars.

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Links

- [1] <https://www.irs.gov/Charities-%26-Non-Profits/Charitable-Organizations/Inurement-Private-Benefit-Charitable-Organizations>
- [2] <https://www.councilofnonprofits.org/tools-resources/protect-your-nonprofit%E2%80%99s-tax-exempt-status>
- [3] <https://www.councilofnonprofits.org/tools-resources/own-your-own-costs>
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