

How to Make Money Running a Nonprofit

by [Brette Sember](#) July 7, 2016

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By its very name, a nonprofit company would seem an unlikely source of personal income. You might be surprised to learn you can, in fact, earn decent money by starting and running a nonprofit, all while making a contribution and having a positive impact in the world.

Setting up a nonprofit

A true nonprofit company must be formed to fulfill a charitable, scientific, educational, or literary purpose. They are registered as 501(c) organizations with the [Internal Revenue Service](#) (IRS), which means they do not pay tax on any funds they earn or are given, so long as those funds support the organization's mission.

A 501(c) organization can bring in more money than it spends, but it does not have to pay tax on that excess revenue, which must stay within the nonprofit for continued use in pursuit of its mission. In other words, the excess proceeds are not distributed among shareholders or owners as they would be in a for-profit company.

If you wish to set up a nonprofit, be sure to read about all the steps necessary for compliance with state and federal laws. In addition to registering with the IRS, you will need to incorporate (if you wish to be a corporation), and you may have to register lobbying and fundraising activities. You'll also need all the permits and licenses any other business would be required to obtain.

Nonprofit secrets

While a nonprofit organization itself cannot earn a taxable profit, the people who run it can receive a taxable salary. All nonprofits have administrative costs, which include not only expenses like paying rent and utilities, but also compensating the staff that runs the organization. Directors and officers of the nonprofit cannot be paid, but people who hold a position within the company can be.

When you create a nonprofit, you can put yourself in any position you want within the company, with a salary you set. But this isn't an invitation to give yourself an unlimited paycheck. The IRS expects that you'll pay yourself reasonable compensation for the services you provide—and it judges reasonableness on the basis of comparable salaries for comparable organizations. Violate this guideline and you risk your tax exempt status.

Where the money comes from

Nonprofits have to raise money to do whatever charitable work they have planned. You can apply for grants and hold fundraisers to bring in the money needed to run the company and pay your salary. Your organization can also earn money through business ventures, such as renting property, selling donated merchandise, and making investments. But if your nonprofit makes money in ways that are unrelated to its mission, the income from those activities will be taxable. For example, if your nonprofit is set up to distribute food to the homeless, but raises funds by buying and selling used cars, those funds will likely be considered taxable by the IRS.

Watch your costs

If you wish to create a nonprofit and pay yourself for working for it, you do need to be judicious about managing your costs. In general, nonprofits that spend less than a third of their funds on their charitable mission are evaluated poorly by sites like [Charity Navigator](#). If you hope to get donations and have people support your charity, you have to be able to show you are truly spending most of the money on the actual mission. And, as noted earlier, you can get in trouble with the IRS if you pay yourself (or your family and friends) unusually large salaries.

Other ways to earn money

In addition to your salary, your nonprofit can provide you with a car, cover the cost of trips, and pay for gas and meals while you are working. There can be plenty of perks available when you work for a nonprofit. Again, however, don't go overboard, as the IRS will expect such benefits to be in line with those paid by similar organizations.

Just remember why you established the nonprofit in the first place: to impact society, not to enrich yourself. Successfully running a nonprofit hinges on having a passion to make a difference in the world and the skills to make the dream come true.

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