

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

end donations in order to survive. For individuals, holiday giving is an opportunity to donate to a cause they care about, while securing a last-minute tax break.

Dec. 08, 2013

Getting into the holiday spirit often comes with plenty of opportunity to give to your local charities.

Federal funding cuts and limited grants have forced many charities to rely on year-end donations in order to survive. For individuals, holiday giving is an opportunity to donate to a cause they care about, while securing a last-minute tax break.

But how do you know your money really is going to the charity's mission? Nonprofits are not scrutinized as much by the IRS but the 990 tax forms can be the first clues as to how well an organization manages its funds.

Before you sign over the check, don't be afraid to research the charity in advance. If you don't know if you should give, answer the following five questions.

### **1. Is the Charity Tax-exempt?**

If you know nothing about the organization, verify that the charity is a registered 501(c)(3) — a public charity nonprofit — with the Internal Revenue Service. You can use websites like [charitynavigator.org](http://charitynavigator.org) for reviews and [guidestar.org](http://guidestar.org) for their 990 tax forms. These tax forms are required to be filed each year by nonprofits.

### **2. How Much of the Charity's Budget Is Spent on Its Services?**

There's some wiggle room here. Experienced and efficient organizations should spend 75 percent or more of its funds on programming. For new charities, however, the amount should be around 60 percent. Newer groups — and even groups that

work on less popular issues- may have to spend more on fundraising and

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

do other organizations, which sometimes means errors can go unchecked for years. Also, many of the form's line items are open to interpretation. Some groups consider salaries part of their program services expenses while others may leave them out.

Remember, the 990s aren't perfect but they are the only public documents nonprofits are required to fill out. If you have a question about a group's 990, call the organization. No matter what the reason, the organization's executives should be able to pinpoint the charity's challenges and goals when it comes to its finances.

### **3. How Much Is the Executive Director's Salary?**

Not all who work for a charity are paid but for the executives that do, you should be able to find the amount in the 990.

It's important to keep everything in context. If a nonprofit's budget is \$100,000 and the executive director makes \$75,000, then you have reason for concern.

According to the IRS, a nonprofit's chief executive officer should receive a "reasonable" compensation. But the tax code remains vague on how much is unacceptable.

The IRS only requires nonprofits to report salaries of executives making more than \$100,000. In the nonprofits used in this report, many of the organizations provided salary information of CEOs making much less.

### **4. Are Board Members Compensated?**

Nonprofit board of directors should be participating for the public good and not for a salary. It's not illegal if they do receive a salary, but it is often considered a red flag.

Board members are listed on the 990s along with any reportable compensation or benefits. In the groups polled in this report, none of the board members received

compensation.

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Nonprofit

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved