



Nonprofit Or Not-for-profit—Which Are You?

Q:

What’s the correct term—“nonprofit” or “not-for-profit”?

A:

That’s an important question, because the way we define ourselves has a dramatic effect

on how the public views us. To answer, let’s break it into a number of questions:

Is there a legal distinction between “nonprofit” and “not-for-profit”?

Legal expert Bruce Hopkins (*Legal Guide to Starting and Managing a Nonprofit Organization*) credits the IRS with creating a distinction between the terms “nonprofit” and “not-for-profit.” According to Hopkins, the IRS uses the term “not-for-profit” to refer to an activity, such as hunting. “Nonprofit” refers to an organization established for purposes other than profit-making (such as an organization of hunters). Unfortunately, Hopkins doesn’t provide a reference for his citation.

Consultant Peter Brinckerhoff has identified “not-for-profit” as the “correct technical term” for organiza-

tions operating in the third sector (“Is Profit a Dirty Word?,” page 18, *Nonprofit World*, Vol 12, No. 1). Unfortunately, Brinckerhoff also fails to provide a reference for his citation.

The IRS sidesteps the question, stating that “nonprofit” and “not-for-profit” are interchangeable (http://www.irs.ustreas.gov/prod/bus_info/eo/eo-faqs.html#11). The IRS notes that both terms are “state law concepts.” The correct federal term is “tax-exempt.”

Is there a preference for one term over the other?

A keyword search in the literature of the sector maintained by the Foundation Center (<http://lnp.fdncenter.org/search.cfm?>) produced the following result:

nonprofit: 3,541 references

not-for-profit: 138 references

Lawyers, accountants, and academics seem to prefer the term “nonprofit” over “not-for-profit.” For these professions, as in many others, the use of accurate and standardized terms is an important aspect of their work.

Fundraising groups (such as the National Society for Fund Raising Executives) tend to prefer “not-for-profit.” Part of the rationale may be that the term seems to imply a wider umbrella of organizations than the term “nonprofit.”

On the other hand, most trade publications and membership groups identify with the term “nonprofit.” Many use the term as part of their name. For example: The *Nonprofit Resource Center*, *Nonprofit Times*, *Nonprofit World*, the Society of *Nonprofit Organizations*.

Is there a practical distinction between “nonprofit” and “not-for-profit”?

While there is no consistent distinction between the two terms, there is usually a strong preference for one term over the other by individuals and groups. Practical distinctions may rely solely on the context of the situation, and the resulting definition may not be valid anywhere else. However, most of the time, for most people and most organizations, the terms are largely synonymous.

Isn’t there a financial distinction between the terms?

Some volunteers, boards of directors, and members of the public believe that an organization *cannot* make a profit if it’s called a “nonprofit.” For these people, this term implies that the organization should



have a zero balance at the end of the fiscal year. Obviously, “nonprofit” and “not-for-profit” organizations can make profits. Federal and state laws only limit *how* an organization can use profit.

Isn't there a better term?

There have been suggestions to identify third-sector organizations more descriptively with terms such as “public benefit companies” or “community service organizations.” Such terms are potentially useful because they are descriptive of a type of organization and present a positive image to the public. They, in effect, define what the organization stands *for* instead of what it's *not*.

Unfortunately, these new terms operate under several deficiencies. First, they are not intuitively inclusive of *all* third-sector organizations. Second, they have no legal basis. They're not consistently used in state incorporation statutes, and they aren't addressed in federal regulations. Third, they introduce another level of complexity to the public's understanding of third-sector organizations.

Can we reach consensus?

The lack of a consistent definition makes it more challenging to explain how third-sector organizations operate. Without this important conceptual framework, the American public becomes disinterested in supporting these organizations. It is incumbent for us, therefore, to select a set of definitions acceptable to most third-sector professionals and use those consistently.

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