

STRUCTURING A SMALL MINISTRY

The tax benefits of a setting up a small ministry to help you accomplish your charitable goals and objectives can provide you and your family with a significant tax advantage and can give you more resources to engage in the important causes for which you are passionate. Whether ministry is your full-time service, part-time or even spare-time, establishing an entity to conduct your ministry can provide some interesting tax advantages as well as giving you a solid platform from which to work. After you have thought through a Case Statement for your ministry, the next step is to consider which entity structure provides the most benefit for what you want to accomplish.

The simplest way to organize your ministry is to set up an Operating Project under a fiscal sponsorship foundation like The New Horizons Foundation. You and other donors will receive a charitable receipt for your donations to the project and you can be reimbursed for ministry expenses and travel.

Establishing a nonprofit corporation as the primary structure to manage your charitable activities will usually make the most sense if you would like to be paid for your charitable service or receive benefits. The nonprofit corporation can either be tax-exempt or nonexempt and each has its own advantages and disadvantages, but most of the tax benefits to you are the same. If there is only one employee, the nonprofit corporation can set up a Healthcare Reimbursement Account (HRA) that gives you the ability to be reimbursed tax-free for all the medical expenses of your family. It also gives you the ability to deduct the cost of your car expenses used in the ministry, all other operating expenses, travel, supplies, equipment, etc. related to the ministry and you can even receive a home office deduction. You can also establish a 403(b) tax-sheltered annuity, which is a retirement program for nonprofit employees, and fund that generously. If you are an ordained minister, you may also be eligible for the Ministers' Housing Allowance, an income tax-free reimbursement of housing expenses for those that are ordained and involved in ministry.

Establishing a nonprofit corporation in a state like Colorado is a very simple process and can be done in an afternoon. You can then choose to file for tax-exempt status with the federal government or operate as a nonexempt nonprofit corporation. Both of these structures work best if you establish an operating project with The New Horizons Foundation to promote your activities and provide administrative support. If all of the donations to your ministry come through the Foundation, they will be receipted and the Foundation will handle your bookkeeping for the project. You will

also have access to sophisticated fundraising tools that can enhance your ability to raise money for the ministry. Each of your donors will have a Donor Portal that allows them to check on their donations and make changes to reoccurring credit card or ACH donations. You can also review the activity in your account that is uploaded to the internet on a daily basis so you can see it 24/7 from anywhere in the world.

There are only two primary benefits to being tax-exempt, first, you can receipt donations so that people can get a charitable deduction for gifts to the ministry and second, if you have profit left at the end of the year you do not have to pay tax. In exchange for these two benefits, you have to file a 990 tax return which is fairly complicated and live under the IRS rules for tax exempt entities which can be restrictive. You can also get these two benefits with a project in the Foundation and use your nonprofit organization to provide services to the project.

If you can keep your annual income for the corporation under \$50,000 a year, then you can file the 1023 EZ form and get tax-exempt status for your corporation in about 3 weeks. If the corporation's annual income is under \$50,000, then all you have to file is a 990N postcard each year and there is no other accounting required by the IRS. If you plan to have the corporation more active, with more than \$50,000 a year, you can operate as a nonexempt nonprofit corporation and file an 1120 tax return. The 1120 is the tax return used for small businesses that gives you great tax benefits and easy reporting. By using your Operating Project in the Foundation to raise funds and receipt donations, and then only transferring money from the project to the corporation to contract for charitable services as you need them, you will get the two primary tax-exempt benefits with a lot less hassle.

Perhaps the biggest advantage to establishing a structure is that you can create an identity for your ministry and you can have a website developed that can become the substantiation and an active proponent for your ministry, allowing others to be informed about what you are doing and contribute to the cause.

We have helped many small ministries get established, operate effectively and efficiently and become large ministries. If you have an idea for a ministry and would like to discuss how to partner with the Foundation to get started, send us an email.