

Non profit corp law

Business



Essay, Non Profit Corp Law Laws are made to govern order and bring harmonization to s in relation to the way things are done. In the state of Virginia, business laws have been made to govern the application of activities in the state. In Virginia, the nonprofit corporation law 13. 1-814 prohibits a corporation from issuing shares of stock. Besides this, no dividend shall be paid or income shall be distributed to the members, directors (Donna, 2011). An exception is however provided that a corporation may provide distributions to another nonprofit corporation that is a member to that corporation or has power to appoint one or more of the directors. A corporation is permitted under the Virginia State laws on nonprofit corporation to pay compensation of some reasonable amount to the members, director officers for the services rendered. It may also pay pensions and benefits conforming to the purposes of the firm as well as make distributions as permitted by the Act upon dissolution or liquidation (Bruce, 2009). However, no such payment, distribution or benefits may be deemed to be dividends or income. As a result of this prohibition, most of the corporations in the state of Virginia that intent to conduct business for profit making are organized in form of stock corporations.

The Internal Revenue Code section 501 expressly prohibits inurnment of earnings of an entity to the benefit of any private individual or shareholder. The code also imposes excise tax on excess benefit transaction between a disqualified person and any organization as described under section 501 (Bruce, 2009). IRS has provided that an organization shall operate primarily for exempt purposes. Under the IRS code, private inurnment applies to benefits to those who control or influence the activities of the organization such as directors, management, officers, the physicians and medical staff.

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Private inurement is based on the requirement that the organization serve a public purpose and not a private one. It prohibits a nonprofit from extending a substantial part of the activities or resources on non- exempt purposes (Bruce, 2009).

This does not mean that the firm cannot have receipts that exceed the expenditures. Rather, the organization should use the revenues to further the exempt purposes but not to further the interests of insiders. The crux of the prohibitions of private inurement and the use of excess benefit lies in enriching the lives of others at the expense of furthering the exempt purposes of an organization (Bruce, 2009). It provides that activities that further exempt purposes of any firm also confer a personal benefit.

The two prohibitions are different in that while the IRS code permits for benefits without exploiting the organization or without diverting from the exempt purpose of the firm, the nonprofit corporation law prohibit administration of benefits whatsoever to directors and management. The two laws however, agree on the need to provide some form of compensation to directors, officers or management for services rendered as long as the distributions are not for personal benefit or do no interfere with the exempt purpose of the organization. The corporation law is stricter on the management than the IRS if the two regulations are to be compared.

References

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