Federal Nonprofit Board Standards

Introduction

This document provides an overview of key standards for federally-recognized 501(c)(3) nonprofit organization boards. It is intended to provide general guidance about federal legal requirements. It complements the NAWA publication Board Standards in Washington State. Nonprofit boards in Washington should review both documents to better understand the minimum requirements for them to operate legally and reduce board member liability. The key requirements below include rules that if violated could result in personal liability for individual board members as well as risks to the organization.

Disclaimer

This document is for educational purposes only. It is not meant to be comprehensive, and in no way will this content be considered legal, business, or professional advice or counsel. It also does not create an attorney-client relationship. For legal advice, please contact a licensed attorney.

Ensure that the mission comes first

- **Avoid private benefit.** A 501(c)(3) organization must serve a public interest. The private benefit doctrine prohibits activities that provide more of a benefit to specific individuals than to the organization itself or the charitable purposes of the organization. Do not over-pay an individual or for-profit business for goods or services. Ensure that the organization’s programs benefit a broad group of people, such as a program that provides scholarships to people of Mexican descent rather than scholarships to members of a particular family.

- **Prevent private inurement.** Board members must insure there is no “private inurement” of the organization’s assets flowing to insiders. An insider, sometimes called a disqualified person, is anyone in a position of influence over the organization including all board members, officers, substantial donors, the organization’s founder, and anyone related to the foregoing by blood or business. Any financial transaction between the organization and such insiders should be carefully reviewed to make sure it is at or below fair market value and wholly fair to the nonprofit organization. The best way to prevent private inurement is to adopt and comply with a conflict of interest policy.
Key laws that nonprofits must follow

- **File an IRS 990 tax return.** Most nonprofits are required to file an annual federal tax return, and very small organizations may substitute with an annual notice in a form 990N return. As a part of this tax filing, the organization must report and pay tax on any unrelated business income.

- **Follow employment law.** All corporations with staff must follow employment laws. Key federal requirements include classifying your employees correctly and withholding and paying employment taxes.

- **Follow federal lobbying regulations.** 501(c)(3) nonprofits must remain non-partisan. When you are acting as a representative of your organization, you should never endorse or oppose any candidate for public office. This does not prevent you from endorsing or supporting candidates in your personal life. Lobbying on issues, including specific legislation, is permitted as long as the organization stays within set limits and report its activity.

- **If you operate internationally, follow additional financial rules.** US organizations acting internationally must comply with the Foreign Corrupt Practices Act (“FCPA”) and Office of Foreign Assets Control (“OFAC”) requirements. These rules prohibit bribery and corruption and require that you take steps to avoid funneling funds to terrorists.

Learn more:

**Washington Nonprofit Handbook**
- The Handbook provides more detailed explanations of legal requirements

**Nonprofit Association of Washington**
- Nonprofit Fundamentals

**Bolder Advocacy**
- Information on federal lobbying rules

**National Council of Nonprofits**
- Conflicts of Interest Resources

![Nonprofit Association of Washington](image)