



# First Children's Finance

## For-Profit vs. Nonprofit Business Structures

Businesses may be structured in many ways, depending on the desires and plans of those responsible for forming the business. The summaries below provide a basic comparison to help emerging child care centers with the important decision about whether to choose a for-profit or nonprofit structure.

<b>For-Profit Child Care Businesses</b>	<b>Nonprofit Child Care Businesses</b>
<p><b>Control</b> The owner or shareholders control the organization.</p>	<p><b>Control</b> The Board of Directors controls the organization. This board is generally made up of representatives from the broader community.</p>
<p><b>Distribution of Profits</b> A for-profit business is organized to make a profit. Excess income or profit can be distributed to the owner or shareholders.</p>	<p><b>Distribution of Profits</b> A nonprofit entity is organized to further a mission that benefits the community. Any excess income or profit must be used <u>only</u> to further the mission and cannot be distributed to individuals.</p>
<p><b>Taxes</b> For-profit businesses must pay federal and state corporate income taxes, payroll taxes, property taxes, and sales tax on purchases. In some cases, individual owners or shareholders may also pay personal income taxes on profits or dividends they receive.</p>	<p><b>Taxes</b> Nonprofit entities are exempt from paying federal and state corporate income taxes, but must pay payroll taxes. In some states, they may be exempt from property tax or sales tax on purchases.</p>
<p><b>Dissolution or Sale of Business Assets</b> A private business can be sold for profit and the proceeds distributed to the owner or shareholders. When a for-profit entity goes out of business, its assets can be liquidated and the proceeds distributed to the owner or shareholders.</p>	<p><b>Dissolution or Sale of Business Assets</b> When a nonprofit organization sells its assets, the proceeds of the sale must be used for the organization's charitable mission. If the organization is dissolved, the remaining assets are typically given to another nonprofit after all debts are paid off.</p>
<p><b>Funding</b> The owner or shareholders usually contribute their own funds or assets (property and equipment) to the business. These contributions are not tax deductible and may be at risk if the business does not do well. The business has access to funding from shareholder equity and business loans depending on the financial condition of the business.</p>	<p><b>Funding</b> Nonprofit entities may have access to government funds and grants, foundation grants, and corporate donations. Depending on their financial condition, nonprofit entities may also have access to conventional loans as well as loans available only to nonprofits.</p>
<p><b>External Accountability</b> A for-profit business is accountable only to the owner or shareholders.  The finances of for-profit businesses are scrutinized less than the finances of nonprofits.</p>	<p><b>External Accountability</b> A nonprofit entity is accountable to its stakeholders and funders, and must meet stringent standards being certified as a (income) tax-exempt entity by the IRS.  The finances and management of a nonprofit entity undergo a much higher level of scrutiny than a for-profit business.</p>



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## Important Questions to Answer Before Deciding on Business Structure

To help consider whether a For-Profit or Nonprofit business structure more closely aligns with your business preferences, answer each statement with a **YES** or **NO**.

1. Most of the people I want to serve will be able to pay full tuition and other fees. \_\_\_\_\_
2. Only a small portion of the funding I need to operate will come from the people I serve. \_\_\_\_\_
3. If I do not provide the services, my target population has the means to find other options. \_\_\_\_\_
4. I will have to rely on individual donations, corporate and foundation grants, or governmental grants in order to provide the services. \_\_\_\_\_
5. As a founder, I prefer to keep control of the organization and be involved in major organizational decisions. \_\_\_\_\_
6. I am prepared to have my organization and its financial activity subject to a high level of scrutiny. \_\_\_\_\_
7. At least one person involved in running the organization could personally benefit from the activities of the organization. \_\_\_\_\_
8. The mission of my organization is compelling enough that people and funders will want to donate to it regularly over several years. \_\_\_\_\_
9. It is very difficult to find members of the community who would eagerly serve on a governing board for this organization. \_\_\_\_\_
10. I am prepared to write and submit applications for grants to help support my organization. \_\_\_\_\_

**What do your numbers say? Follow these directions carefully.**

Total the **odd numbered** statements you marked as **YES**. \_\_\_\_\_

Total the **even numbered** statements you marked as **NO**. \_\_\_\_\_

**Add** the two totals together. \_\_\_\_\_

If your total is more than 6, a for profit business structure may be most in line with your business preferences.

If your total is less than 4, a nonprofit business structure may be most in line with your business preferences.

If your total is 4-6, you are in the middle and prefer some aspects of each type of structure.

**Always consult with your lawyer and accountant for specific legal and accounting questions.  
Contact First Children's Finance for assistance in choosing a structure that is the best fit for your goals.**