Modernizing North Carolina Nonprofit Laws Could Eliminate Red Tape and Strengthen Accountability

The North Carolina Center for Nonprofits, representing organizations serving all 100 counties of North Carolina, is urging state legislators to enact critical changes to state laws that affect nonprofits. These changes will enable nonprofits to operate more efficiently and dedicate a greater share of their resources to mission-driven programs, services, and activities.

Nonprofit annual reports. North Carolina is one of the few states that does not require nonprofits to file basic annual reports. This has resulted in more than 140,000 incorporated nonprofits, despite only about 36,000 tax-exempt organizations filing Form 990s with the IRS. The proliferation of defunct nonprofits complicates oversight and increases the risk of fraud and abuse.
Proposed Solution: Introduce a simple, online, no-fee annual reporting requirement for nonprofits in Chapter 55A of the NC General Statutes.

Number of nonprofit directors. North Carolina currently allows nonprofits to operate with only one board member, creating governance challenges and potential conflicts of interest. This standard is inconsistent with nonprofit best practices and the Model Nonprofit Corporation Act, which requires at least three board members. Limited exceptions for private foundations and nonprofits winding down operations could be reasonable.
Proposed Solution: Require North Carolina nonprofits to maintain at least three board members, with exceptions for private foundations and nonprofits experiencing temporary vacancies.

Mergers and dissolutions of nonprofits. The financial challenges facing many nonprofits have led to an increase in mergers and dissolutions. However, current laws do not explicitly allow mergers between nonprofit corporations and other entities like unincorporated nonprofit associations or LLCs classified as 501(c)(3) organizations. This creates unnecessary hurdles for efficient transitions of charitable assets.
Proposed Solution: Amend state law to explicitly permit mergers between nonprofit corporations and unincorporated nonprofit associations or LLCs that are treated as 501(c)(3)s.

Domestication of nonprofits. Current laws require nonprofits relocating to or from North Carolina to create a new legal entity, reapply for tax-exempt status, and transfer assets, creating unnecessary costs and delays.
Proposed Solution: Adopt a domestication provision in the NC General Statutes, aligning with the Model Nonprofit Corporation Act to streamline relocations.

Nonprofit conversions. North Carolina lacks a process for business entities to convert to nonprofit corporations, forcing costly, time-consuming dissolutions and re-incorporations.
Proposed Solution: Establish a conversion process in Chapter 55A of the NC General Statutes to enable business entities to seamlessly transition to nonprofit corporations.

Written acknowledgment of donations to charitable nonprofits. State laws governing written donation acknowledgments lack clarity, creating risks for nonprofits that comply with federal requirements but could face state-level disputes.
Proposed Solution: Amend Section 131F-9 of the NC General Statutes to align state requirements with federal standards for donor acknowledgments.

Exempting bona fide nonprofit fundraising events from sales tax. Confusion over sales tax obligations for nonprofit fundraising events reduces revenue and imposes administrative burdens on organizations.
Proposed Solution: Amend Section 105-164.4G of the NC General Statutes to clarify that most nonprofit fundraising events are exempt from sales tax, as their primary purpose is supporting nonprofit missions rather than entertainment.

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