Public charities and private foundations are, by definition, organized and operated for tax-exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. But where does a nonprofit organization state this information? And to what extent – and where – should a nonprofit articulate additional details about its particular tax-exempt purpose? The answer lies within the nonprofit’s “corporate purpose statement.”

Start at the Beginning

Every nonprofit corporation begins with the filing of articles of incorporation. The articles of incorporation contain a written “purpose statement” that should succinctly set forth the organization’s long-range aspirations, within a focused framework of plans and programs. The same purpose statement should also be set forth in the nonprofit’s bylaws.

The purpose statement should generally be fifty words or less, allowing it to be specific, memorable, and easy to share with others. It should be broad enough to allow for growth and program expansion, yet narrow enough to demonstrate tax-exempt qualification and to shape organizational decision-making. The purpose statement should distinguish the nonprofit’s mission from that of other organizations, thereby demonstrating the compelling need for its specific programs, services, and the benefit of its continued existence.
Here is one example:

Help the World is organized and operated exclusively for charitable purposes in accordance with Section 501(c)(3) of the Internal Revenue Code. More specifically, Help the World is dedicated to reducing poverty in Africa through humanitarian assistance, free educational programs, and compassionate medical services.

Not only does this purpose statement reflect its Section 501(c)(3) classification, it follows through with more descriptive language about qualifying charitable activities, specific kinds of such activities, and even a geographical focus. The purpose statement need not be a catchy slogan for fundraising materials or a website, and it should not include a long list of the organization’s goals or values. Fundamentally, the purpose statement captures the nonprofit’s spirit as its organizational cornerstone.

The Purpose Statement’s Continuing Importance

The IRS and other government agencies rely on an organization’s stated purpose statement for evidence of its qualifications for corporate, sales, and real estate tax exemptions at the state and federal level. An organization therefore must clearly communicate the justification for its federal (and any applicable state property or sales) tax exemption as charitable, educational, and/or religious.
For faith-based organizations, specificity about the religious nature of their exempt purposes is especially important. Some state charitable solicitation statutes provide religious exemptions from registration and annual reporting requirements. In addition, an expressly religious purpose statement may be vitally important for protecting significant religious liberty interests. For example, if Help the World wants to require that all employees be of a certain faith, it likely needs to include a religious dimension to its corporate purpose statement.

The purpose statement is also of key importance for directors and officers fulfilling their fiduciary duty of obedience. This legal duty requires each nonprofit leader to “obey” — or adhere - to the organization’s corporate purpose statement. So each leader must not only know the nonprofit’s corporate purpose statement, he or she must follow it scrupulously and adjust it if deemed necessary and appropriate. A corporate purpose statement may be adjusted through filing articles of amendment and amending bylaws. Both steps typically involve substantial leadership attention and super-majority approval requirements. Using the Help the World example from above, the organization could later decide to adjust its corporate purpose statement geographically, by eliminating the word “Africa” or making the geographic designation even more specific.

Finally, a nonprofit’s corporate purpose statement serves as a guiding compass for the organization’s employees, volunteers,
donors, and other supporters. The purpose statement informs the nonprofit’s communications, such as a tagline, a more developed statement of mission goals, website information, and other publicity relations. Current and prospective donors can also evaluate the use of donations through assessment of the organization’s stated purposes and its actual use of donated funds. The purpose statement motivates all to help the organization achieve its purpose-centered goals.

By keeping the above considerations in mind, nonprofit leaders can develop purpose statements that are compliant with the pursuit of exempt purposes, useful for the organization in making current and future decisions, and transformative for communication efforts and donor attraction.