



Operating a Nonprofit (Tax-Exempt) Thrift Store

You have probably seen, and may have shopped at, a local thrift store that sells donated goods. The local [Habitat for Humanity ReStore](#) is one of my favorites. However, you may not know that thrift stores, and their income, are subject to federal and state income taxes **unless** the store meets specific IRS (Internal Revenue Service) criteria.

This RENOSI guide provides a brief overview of how to meet IRS requirements to exempt your thrift store from federal income tax.

▶ **Thrift stores are taxable business activities**

The basic rule is that any activity regularly carried on by a nonprofit tax-exempt organization to produce income from the sale of goods or the performance of services is taxable. Operating a thrift store, therefore, is a taxable business activity if the store is open a regular schedule (rather than a once-a-year event for example), and the operation of the store is unrelated to the tax-exempt purpose of the organization. Most thrift stores are considered unrelated businesses, even if the income produced is used for exempt purposes. The IRS looks at how an activity is operated, and if it is similar to how for-profit stores are operated, not at how the income is used.

▶ **Thrift stores often qualify for one or more exceptions to tax rules**

There are a variety of exceptions, however, that allow income from unrelated businesses operated by exempt organizations to escape taxation. Two of these exceptions, the volunteer and donated goods exceptions, often apply to nonprofit thrift stores.

▶ **Volunteer exception**

Thrift stores in which substantially all of the work is performed by volunteers without compensation are exempt from the tax on unrelated business income. If a thrift store has both paid and unpaid staff, the IRS looks at the total hours expended by both paid and unpaid staff. If at least 85% of the total hours are worked by unpaid staff, the IRS has found that the **substantially all** rule is met.

▶ **Donated goods exception**

Thrift stores in which substantially all the goods sold are donated also are exempt from the tax on unrelated business income. Similar to the volunteer exception, the IRS has found that the **substantially all** rule applies if at least 85% of the items sold are donated.

► Convenience exception

Some thrift stores also may qualify for the convenience exception. The IRS has found that activities carried on for the convenience of an organization's members, students, patients, officers, or employees may be excluded from federal income tax. The IRS has applied this exception very strictly, finding for example that the exception did not apply to a university's golf course that was made available to alumni. The convenience rule was found to apply to laundry and dry cleaning services a university provided for its students.

Spouses clubs operating on U.S. military bases often operate thrift stores to buy and sell furniture and other items of staff and their families assigned to the base. These thrift stores may be considered to meet the convenience exception.

► Thrift stores must meet state and local requirements

Thrift stores also must comply with local and state government requirements including local business license rules and state sales tax laws. Most towns and cities require that a business license be obtained prior to opening a retail store. Business licenses often are issued by the local business tax office. The store also may only be opened in an area zoned for similar business activities.

Most states also require stores to register to collect and pay sales tax on the items sold. State laws vary widely. Some states do not tax clothing or personal items. Other states provide exceptions or exemptions to nonprofit, tax-exempt organizations. View our handy [state-by-state guide to requirements](#).

► Valuing thrift store donations

Donations of goods to thrift stores operated by nonprofit organizations recognized as charitable organizations under section 501(c)(3) of the Internal Revenue Code are often tax-deductible for the donor. IRS rules require that the nonprofit organization ensure that donated goods are in resellable condition before providing a receipt for tax purposes. Most thrift stores allow the donor to set the value of the item on the receipt. Both the [Salvation Army](#) and [Goodwill](#) provide guides to how to value donations of used goods.

IRS rules require that a receipt be provided for any donations valued over \$250. Any donated item valued at over \$500 requires that [IRS Form 8283](#) be completed. Donations valued over \$5000 require that the charitable organization receiving the donated goods complete the Part V Donee Acknowledgement of Form 8283. The thrift store acknowledgement of the donation does not mean that the thrift store agrees with the donor's claimed valuation of the donation. Some donations valued at more than \$5000 require a qualified appraisal.

The IRS provides several resources for nonprofit organizations and the public on charitable deductions and valuing donations. [IRS Publication 526](#) explains which organizations qualify to receive charitable contributions, what's deductible, and record keeping. [IRS Publication 561](#) provides information on valuing donations, including defining "fair market value" and the information you must have to support the charitable contribution deductions claimed on your tax return. View a [searchable list of all IRS forms and publications](#).

► Operating a thrift store like a business

Having already established that a thrift store is an income-producing business, it should be operated like a business. Thrift stores should have in place accounting procedures, including software to track income, expenses and generate reports including a balance sheet. It also is critically important to have financial procedures and controls in place. Cash disappears. Procedures requiring at least two people be present to count cash at opening and closing of each shift is essential. Separation of controls, including having someone other than check signers and those that routinely handle funds review and reconcile bank statements monthly. The [Society of St. Vincent de Paul's](#) downloadable 300-page thrift store operations manual may provide some useful guidance.

Systems to track inventory also may be needed. The article [The Best Ways to Track Inventory in a Thrift Shop](#) provides some useful tips.

About RENOSI

RENOSI is the leader in helping national organizations set up and manage affiliate chapters. Setting up local, regional and state affiliate chapters is an excellent way to grow your national organization. Managing hundreds and even thousands of chapters, however, is time-consuming and difficult.

Since its inception, RENOSI has provided a simple and stress-free solution to help obtain and maintain tax-exempt status for over 4,000 nonprofits. With the interactive myRENOSI dashboard, our partners can organize their state and federal registrations, allowing our team of experts to help ensure your tax-exempt status is not revoked.

Disclaimer: This guide is for general information and is not intended to provide legal or accounting advice specific to your organization. If you or your organization need legal or accounting advice, please engage a licensed professional by written agreement and have them review your organization's situation in detail.



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