

Nonprofit Workers: Employees, Volunteers, and Contractors

Classifying workers correctly can make or break a nonprofit's tax compliance. This course covers the distinctions between volunteers, employees, and independent contractors, including the tax treatment implications of each classification. You'll explore the pros and cons of different arrangements, common dos and don'ts when working with independent contractors, and how electronic payment rules affect Form 1099-NEC reporting. Practical and direct, this course helps practitioners guide nonprofit clients through worker classification decisions confidently.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

[Start Course ↓](#)[Final Exam Copy ↓](#)

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize how to treat volunteer expenses.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

This course and test have been adapted from supplemental materials utilizing the full text of Every Nonprofit's Tax Guide 9th Edition, written by Stephen Fishman, J.D. © 2025 by Nolo. Reprinted with permission from Nolo, which owns the copyrights.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Publication Date: August 2026

TABLE OF CONTENTS

CHAPTER

01

Volunteers, Employees, And Independent Contractors..... 4

1.01 Volunteers—The Backbone Workforce Of Nonprofits 4

1.02 Reimbursing Your Volunteers—Know The Rules 6

1.03 Benefits And Freebies—How To Show Your Appreciation Tax Free..... 18

1.04 Paid Help: Employees And Independent Contractors 24

1.05 Hiring Employees 44

1.06 Affordable Care Act (Aca) And Nonprofit Employers..... 50

Test Your Knowledge..... 53

Final Exam Copy 66

Glossary 59

Index

Chapter 1: VOLUNTEERS, EMPLOYEES, AND INDEPENDENT CONTRACTORS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize how to treat volunteer expenses.

In the eyes of the IRS, people who work for a nonprofit fall into one of two broad categories: They are either unpaid help or paid help. Unpaid help consists of the volunteer workers that so many nonprofits rely on to accomplish their goals. Paid help—that is, workers who are compensated for their services—fall into one of two other categories: They are either employees or independent contractors. These three types of workers—volunteers, employees, and independent contractors—are all treated very differently for tax purposes. As a nonprofit, it's important to be able to distinguish among them so you know how to handle—and possibly avoid—tax issues related to each.

In this chapter, we explain how to distinguish among these categories of workers and the tax rules for each. Worker misclassification is a hot-button issue for the IRS. If you are audited, you can be sure this is something the IRS will look at. If you understand and follow the rules, you can avoid the risk of having to pay back taxes and penalties for improperly classifying your workers.

VOLUNTEERS—THE BACKBONE WORKFORCE OF NONPROFITS

Small nonprofits—those with budgets less than \$200,000—typically rely almost exclusively on volunteer help. Even larger charities are manned mainly by volunteers. According to a recent report on Form 990 filings, 85% of all charities have no employees at all. Everything these organizations do is being done by volunteers. Among the smaller nonprofits with employees, the paid staff is often tiny—perhaps an executive director and part-time bookkeeper. These organizations rely mostly on volunteers to perform the bulk of their work. Even larger nonprofits with paid staffs often have substantial numbers of volunteers working for them.

People often think that because volunteers aren't paid for their work, no tax issues arise when they work at an organization. This assumption is far from true. Two areas in particular where you need to be careful with how you handle volunteers are reimbursing them for expenses they incur and providing them with noncash benefits. If you do both these things properly, no tax consequences or reporting obligation to the IRS for you or the volunteer will result. However, you must know and follow the rules, or these payments or benefits won't qualify for tax-free treatment.

What Is a Volunteer?

To figure out what type of tax issues you might have with the various people helping out at your organization, you'll first have to know which ones are volunteers and which ones are paid workers. It's basically as straightforward as it sounds. A "volunteer" is anyone who performs services without any expectation of getting paid for those services. Certain volunteers are what might be called "pure volunteers"—they receive nothing of value for their services and they don't get reimbursed for any expenses they incur working for the nonprofit. The only things they might receive are token items of appreciation, like a mug or tote bag. Pure volunteers pose absolutely no tax issues for the nonprofit. If nothing of value changes hands, there is nothing to be taxed. These volunteers might be able to recoup some of the costs they incur for volunteering—gas money, for example—by claiming these expenses as a charitable deduction (if they itemize their personal deductions). But there are no tax consequences for the nonprofit.

Other volunteers might get reimbursed for expenses they incur while working or the nonprofit might offer them certain benefits, like discounts on parking, event tickets, or small gift items. While nonprofits are under no legal obligation to provide anything to volunteers, they are always free to do so. However, if your nonprofit chooses to do this, it must handle any reimbursements or benefits properly to avoid possible tax consequences for the organization and volunteer.

Volunteer Work—From Director to Intern

Volunteers perform a variety of services at nonprofits—everything from answering the phones to overseeing the organization. Some nonprofits carefully interview potential volunteers and require them to sign written contracts before commencing work. Other arrangements are less formal or project based. Oftentimes, volunteers are asked to perform certain tasks or work certain hours, usually under the direction of the executive director or another staff person. For example, a nonprofit may have volunteers who show up at regular hours to perform specific office work, such as doing client intake or delivering meals to the elderly.

The specific roles volunteers may play at an organization include those described below.

Director. Incorporated nonprofits are run by a board of directors, which is responsible for overseeing the management of the organization. Directors of nonprofits are almost always volunteers who aren't paid for their services, although they sometimes get reimbursed for their expenses.

Officer. An incorporated nonprofit usually has officers such as a president, vice president, secretary, treasurer, executive director, and chief executive officer. Often the head of the organization—the executive director, president, or chief executive officer—is paid. Generally, the other officer positions aren't. Officers who aren't paid for their services are volunteers—in smaller nonprofits they are usually board members who take on one of the officer roles.

Intern. An intern is someone who works at a nonprofit on a temporary basis to get experience or make contacts in a particular field. Students are often hired as interns during their summer breaks and usually don't get paid for their services. If they get paid, whether a full salary or small stipend, they are considered employees.

Trainee. Trainees are people who participate in a government-approved program that provides them with training or instruction for future employment. Trainees aren't paid wages for their services, but may be given nontaxable stipends for their expenses such as transportation, books, tools, and meal costs during training.

REIMBURSING YOUR VOLUNTEERS—KNOW THE RULES

Some nonprofits reimburse their volunteers for expenses. This might be out of a sense of fairness or to encourage people to volunteer, particularly those who might not be able to afford to work for free otherwise.

- Travel to and from the place of volunteering
- Postage, copying, and similar costs
- Equipment or protective clothing
- Attendance at training events and courses, and
- Long distance travel, meals, and lodging while on nonprofit business.

Can Employees Be Volunteers?

The IRS doesn't care if a nonprofit's employees also serve as volunteers for the organization. Either way, anything of value given to the worker will be taxable, other than reimbursements for expenses and certain tax-free benefits.

However, the U.S. Department of Labor does care if employees volunteer for their employers. It wants to ensure that these employees aren't taken advantage of. Under its rules, it is acceptable for an employee to serve as a volunteer only if the services the employee performs for the employer are:

- Not the same type of services the worker is paid to perform, and
- Take place outside the employee's normal working hours.

For example, employees who work from 9 a.m. to 5 p.m. during the week could volunteer on the weekend or evenings, as long as they don't do the same type of work they are paid to perform during their regular paid weekday hours.

These rules only apply to nonprofits that engage in a business activity—for example, a nonprofit that sells used clothing to the public would be covered. They wouldn't apply to a nonprofit that only provides counseling services.

A volunteer might pay or seek reimbursement for expenses in different ways. In most cases, the volunteer will pay the expenses at the time they are incurred and then seek a cash reimbursement from your nonprofit. However, in some cases, the volunteer might get an advance payment to cover anticipated expenses. This payment is fine as long as it isn't paid more than 30 days before the expense is incurred. Alternatively, a volunteer could be given a company credit card to use. In some instances, a volunteer might handle expenses through a direct billing to the nonprofit. Using a company credit card or direct billing doesn't involve an actual reimbursement of funds to the volunteer because the nonprofit directly pays the expense. Nevertheless, the same rules apply as for an actual reimbursement where the volunteer pays an expense out of their own pocket and is later repaid by the nonprofit.

As long as the reimbursements are done properly, there should be no tax consequences for reimbursements for the nonprofit or its volunteers. The key to keeping them tax free is to make sure you have an accountable plan that follows IRS rules and that all reimbursements are made in accordance with that plan. If they are, these payments don't even need to be reported to the IRS.

Accountable Plans—The Key to Success With the IRS

An accountable plan is a plan that follows IRS rules on reimbursing employees or volunteers for business-related expenses. The IRS has adopted rules about reimbursements because these types of payments can be so easily subject to abuse. For example, someone on a business trip to Seattle might try to include in their business expenses the cost for a sightseeing trip to an island. To avoid these kinds of problems, the IRS has adopted a strict set of rules that must be followed for reimbursements to be nontaxable and nonreportable events.

To pass muster with the IRS, the accountable plan must require that:

- Any expenses being reimbursed are incurred for a nonprofit business purpose.
- The volunteer adequately accounts for the expenses within a reasonable period of time—no more than 60 days after the expense was incurred.
- The volunteer returns any amounts received in excess of the actual expenses incurred within a reasonable period of time—no more than 120 days after receipt of the excess money.

If you have an accountable plan that complies with these rules, then any payments made under the plan aren't taxable and needn't be reported to the IRS.

An accountable plan doesn't have to be in writing, although this isn't a bad idea. All you need to do is set up procedures for your volunteers and employees to follow that meet the requirements. However, you could include your accountable plan procedures in a volunteer handbook or orientation packet. Let's take a closer look at some of the accountable plan requirements.

Business expenses only. This is a threshold requirement. The expenses being reimbursed must be directly related to the work or services provided by the volunteer. The IRS doesn't want people to get reimbursed for any personal, family, or other nonbusiness expenses along with their business expenses.

Entertainment Expenses Aren't Reimbursable

As a result of the Tax Cuts and Jobs Act, the massive tax reform law that took effect in 2018, most types of entertainment expenses are no longer deductible or reimbursable as a business expense. This includes theater or sporting event tickets and any entertainment facility fees.

For example, a volunteer traveling to Las Vegas on nonprofit business can't be reimbursed for a trip to the Grand Canyon. That is a personal expense that the volunteer must pay for out of the volunteer's own pocket. Or, a volunteer could decide to bring a family member along on a business trip. As long as there is no added expense, that is okay. Otherwise, any expenses paid for by the nonprofit that aren't business related or are incurred on behalf of a family member or someone other than the volunteer must be included as taxable income for the volunteer and reported to the IRS.

Example

Phil is executive director of the Carbon Reduction Project, located in Colorado Springs. He travels to Washington, D.C., to testify before a congressional committee on climate change. He decides to take his wife and two children along so they can see the nation's capital. Had he traveled alone, his hotel room would have cost \$200. Instead, he books a "mini-suite" at \$500 per night. His total lodging expense for the four-day trip is \$2,000. The nonprofit reimburses Phil for the entire \$2,000, even though his hotel would have cost only \$800 had he traveled alone. The extra \$1,200 is taxable income that must be included on Phil's W-2.

Adequate accounting. It is crucial to have good records for expenses to be reimbursable under an accountable plan. At a minimum, every expense should be supported by documentation showing:

- What was purchased
- How much was paid for it, and

- Whom (or what company) it was purchased from.

The documentation can consist of canceled checks, sales receipts, account statements, credit card sales slips, invoices, or petty cash slips for small cash payments.

Example

Art, a volunteer for a nonprofit that documents toxic waste dumps, purchased a digital camera for himself and other volunteers to use to photograph dumps. The nonprofit agrees to reimburse him for the purchase. He provides the receipt for the camera and writes “purchase of camera to be used to document toxic dumps” to show the business purpose. This documentation is adequate.

Many nonprofits require volunteers to complete a written expense report to get reimbursed. For certain expenses, such as local transportation, travel, entertainment, meals, and gifts, the IRS imposes additional documentation requirements. (See “Local Transportation Costs” and “Travel and Meal Expenses,” later.)

Expense Reimbursement Policy

Here is an example of actual expense reimbursement procedures used by a nonprofit. These procedures comply fully with IRS accountable plan rules.

All requests for reimbursement shall be made in writing (preferably on the Expense Report) and shall be signed and dated by the person seeking reimbursement.

Expense Reports should be submitted within 60 days of incurring the expense. It is critical to receive all reports from a fiscal year (October 1–September 30) within 30 days of the close of the fiscal year (October 31). Any requests for reimbursements by volunteers or staff received after the close of the fiscal year-end books might not be paid. Any reimbursements in excess of actual substantiated expenses must be returned within 120 days after the expense was paid or incurred.

The Executive Director is authorized to reject or modify payment to comply with these policies and guidelines. Appeal of the Executive Director’s decision shall be made to the Treasurer who may present the appeal to the Board of Governors if appropriate.

An alternative to getting reimbursed for actual expenses is to use a *per diem* rate. Record-keeping duties are always easier if you choose to be paid at the IRS-approved *per diem* rate—although you usually won’t get as much money. Under the *per diem* method, the IRS will accept the amount you claim for lodging, meals, and incidental expenses up to the maximum specified IRS *per diem* rate. You don’t need to provide any receipts or documentation to back up your claimed expenses. The

only thing you need to substantiate (by receipts or your own notes) is the time, place, and business purpose of the expense. *Per diem* rates for lodging, meals, and incidental expenses are set by the IRS and vary according to the destination. You can find these rates at www.gsa.gov (scroll down to “Per Diem Look-Up” on the main page).

Prompt return of excess payments. Obviously, a volunteer can’t be paid more than the volunteer actually spends on expenses. Volunteers who receive an advance or some kind of allowance for expenses must keep track of what they spend and return any excess within 120 days after the expense was paid. If any excess isn’t paid back within the required 120 days, the difference is gross income that the volunteer must pay income tax on.

Example

The Canary In the Mine Project is a nonprofit that compiles climate change information by photographing its effects around the world. Hugo, a freelance photographer, volunteers to help photograph melting glaciers. Over six months, he travels to glaciers on five continents. The project doesn’t pay Hugo a salary, but gives him a \$2,000 per month allowance that he can use to pay for his travel, meals, and lodging. It turns out that Hugo is a very frugal traveler. Of the \$12,000 allowance the project paid him, he actually spent only \$8,000. If he doesn’t pay back the \$4,000 excess within 120 days, he must report it as income and pay income tax on it.

If you don’t follow the accountable plan rules, any reimbursement a volunteer receives is income and subject to tax. Once the volunteer receives income, the volunteer becomes a paid worker and must be classified as either an employee or independent contractor under federal tax law. Most volunteers will be classified as employees because they typically work under the direction and control of the nonprofit and meet other criteria for being classified as employees. The one exception is directors; they are classified as independent contractors because of their more independent role in overseeing the management and direction of the nonprofit. We cover this distinction and the tax reporting requirements for each in more detail later in this chapter when we discuss employees and independent contractors. However, we’ll briefly go over the distinction now to show the two different ways you might have to report reimbursement income.

With volunteers who are classified as employees (which most are), any reimbursements they receive that weren’t paid under an accountable plan must be reported to the IRS on Form W-2. This means that for each volunteer who gets paid under an unaccountable plan, the nonprofit must file a Form W-2 with the IRS that reports the reimbursement as compensation. In addition, that payment is subject to all applicable employee payroll taxes. The volunteer must include that amount on their annual Form 1040 that reports their total income for the year. If any regular employees (not volunteers) receive improperly documented reimbursement payments, the nonprofit must include those amounts as well as additional compensation paid to the employee.