

# Establishing Your Organization

in 3 Easy Steps



A Step-By-Step Guide for Setting up  
your Nonprofit Organization

# Establishing Your Organization

## Overview

Forming a nonprofit organization is much like creating a regular corporation, except that you'll need to take the extra steps of applying for tax-exempt status with the IRS and, possibly, with your state tax division.

It's important to understand that granting nonprofit status is done by the state, while applying for tax-exempt designation, such as 501(c)(3), is granted by the IRS. It is not required that you apply for tax-exempt status, but this status does exempt you from paying taxes on revenue generated.

Most of the real benefits of being a nonprofit flow from not paying federal taxes, tax-deductibility of donations and accessing grant money.



**Here are the steps you need to take and the order you'll want to take them:**

- 1. Obtain nonprofit materials from your state's corporate filing office.** Each state has different filing requirements. Check with

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your state's corporate filing division for a filing fee schedule and necessary forms and instructions. Licenses generally cost between \$20-\$100 and are typically renewed each year.

**2. Choose a business name.** Each state has differing rules for compliance, but here are some common guidelines you might follow:

- Your nonprofit's name cannot be the same as another corporation on file with the corporation's division. Check with your state office to ensure your name is original. And then check with the US Patent & Trademark office to ensure you're not violating a trademark: <https://www.uspto.gov/trademarks-application-process/search-trademark-database> and click "Search our trademark database (TESS).



"Each state has differing rules for compliance."

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- Some states require the name end with a corporate designator (ex: Corporation, Incorporated, Limited, etc.).
- The name does not contain words prohibited by the state (ex: Bank, Cooperative, Federal, National, United States or Reserve).

3. Once you've decided on a name, you'll file formal paperwork, usually called "articles of incorporation" which will automatically register your name.

Articles of Incorporation (sometimes also referred to as "certificate of incorporation", "charter document" or "articles of organization") is a legal document, filed with the secretary of state. This process is referred to as "incorporating".



"Articles of Incorporation is a legal document, filed with the secretary of state"

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Incorporating registers your organization's name and paves the way for applying for federal tax exemption. Once you have received state approval of the Articles of Incorporation, you can use the name to apply for a Federal Employer Identification Number (EIN) with the IRS, obtain a business license with the state, and sign contracts.

To prevent delays and additional costs, be sure you know all the requirements for your formation before filing Articles of Incorporation. For instance, for an association to qualify under section 501(c)(3) of the IRS code, its Articles of Incorporation must contain certain language. Here is a link to the suggested language you might incorporate into your Articles of Incorporation:

<https://www.irs.gov/charities-non-profits/suggested-language-for-corporations-and-associations>



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## 4. Apply for federal and state tax exemptions.

Note: This step is not required, but once approved, your state office will return a copy of your filed articles to you that you can then use to apply for your federal 501(c)(3) status. Obtaining your federal tax-exempt status is one of the biggest benefits of establishing a nonprofit.

You'll use Form 1023 or Form 1023-EZ to apply. The fee for Form 1023 is \$600 (as of 4/1/19). The fee for Form 1023-EZ is \$275. Smaller organizations that anticipate receiving \$50,000 or less in annual gross receipts should use Form 1023-EZ.



<https://www.irs.gov/charities-non-profits/form-1023-and-1023-ez-amount-of-user-fee>

Along with Form 1023 or Form 1023-EZ, you'll need to create corporate "bylaws," which set out the operating rules for your

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nonprofit corporation. These are established by the board of directors during the process of starting the corporation. These rules direct the operations of the corporation during its life.

Bylaws typically include identifying information, roles and duties of board members, when your financial year starts, rules and procedures for holding meetings, electing directors, and appointing officers, conflict of interest policies and procedures, and other essential governance matters.



- Next, you'll appoint director(s) who will adopt the bylaws and elect officers. Some states are OK with one director. Others require at least three: president, secretary and treasurer. These folks are typically authorized by the director(s) to do things like open bank accounts and sign checks.

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- As a federal tax exempt organization you will not have to pay federal taxes. In some states you must also apply for a state tax exemption. Contact your state tax agency to find out what steps are required in your state.

The most common designation received is the 501(c)(3) when you apply for federal tax exempt status with the IRS.

As a 501(c)(3) your donors' charitable contributions will be tax deductible.

Many states also allow 501(c)(3) organizations be exempt from sales tax on purchases. The United States Postal Service also offers discounts on bulk rate postage for 501(c)(3)s.



*"The most common designation received is the 501(c)(3)."*



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This link walks you thru the process of preparing for and filing to become a 501(c)(3): <https://www.irs.gov/charities-non-profits/application-for-recognition-of-exemption>

Once the IRS grants you 501(c)(3) status you will need to fill out a version of the Form 990 each year. This is due by the 15th day of the 5th month after the end of your financial year.

There are 4 different types of Form 990's. The one you file depends upon the type of organization and your financial activity:

Status	Form to File
Gross receipts normally $\leq$ \$50,000 <b>Note:</b> Organizations <a href="#">eligible to file the e-Postcard</a> <a href="#">may choose to file a full return</a>	<a href="#">990-N</a>
Gross receipts < \$200,000, and Total assets < \$500,000	<a href="#">990-EZ</a> or <a href="#">990</a>
Gross receipts $\geq$ \$200,000, or Total assets $\geq$ \$500,000	<a href="#">990</a>
Private foundation - regardless of financial status	<a href="#">990-PF</a>



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Not sure which 990 you should file? Find out here:

<https://www.irs.gov/charities-non-profits/form-990-series-which-forms-do-exempt-organizations-file-filing-phase-in>

Not sure when your financial year starts? This link might help:

<https://charitycheck101.org>

5. **Before conducting business in your state, you may be required to obtain state or local licenses.** For instance, if you sell anything to consumers, you'll likely need a sales tax permit.

6. **Additional special permits/licenses you MIGHT need:**

- If your group hosts any type of "game of chance" (e.g. raffles, bingo, casino nights, etc.) then you might need to get a raffle permit or license. These are usually obtained from your state's Gambling Commission.
- If your group will be serving or selling alcohol at an event you will need to look at your state's special licenses and permits.



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This is usually handled via your state's Liquor (and Cannabis) Board.

- About 40 states require nonprofits to register with the state before soliciting donations. In other words, if you plan on asking for donations via your website, Twitter, texting, phone calls, snail mail, personal "asks", etc. you probably need to register with your state. Remember, if you are going to be soliciting donations from folks in more than one state, you will need to be compliant in each of those states.

Charitable Solicitation Registration

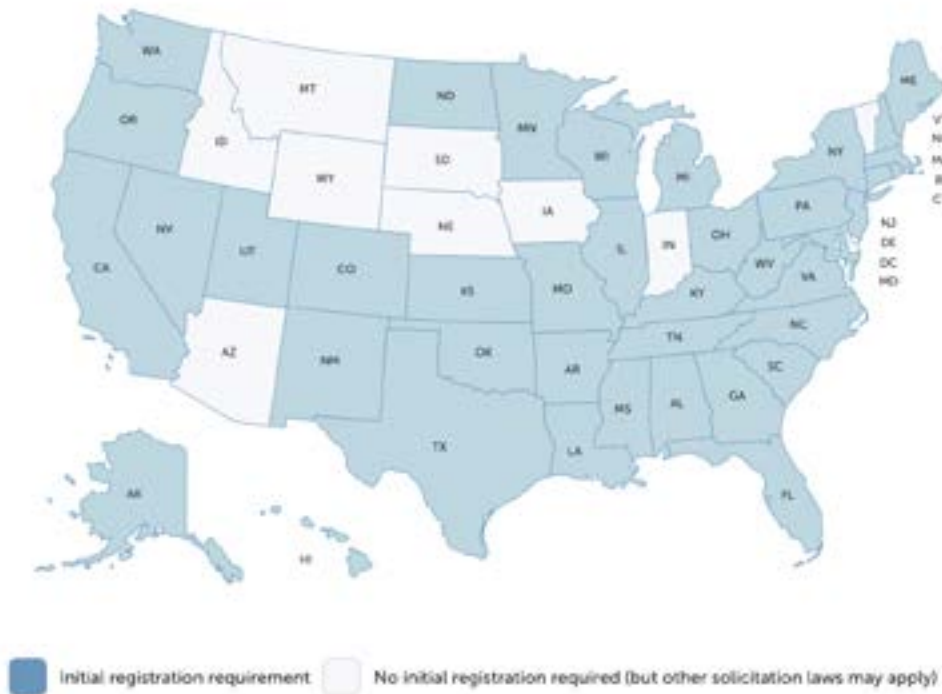
<https://www.councilofnonprofits.org/tools-resources/charitable-solicitation-registration>

"The most common designation received is the 501(c)3."

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Not sure about whether you're operating in compliance? Check out this guide (by state):

[https://www.harborcompliance.com/information/charitable-registration?utm\\_source=councilofnonprofits.org&utm\\_medium=referral](https://www.harborcompliance.com/information/charitable-registration?utm_source=councilofnonprofits.org&utm_medium=referral)



Note: This information is not intended as legal advice. We recommend you consult a legal advisor with questions.



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## Resources:

This link can help you locate permit and licensing requirements within each state:

<https://www.nasconet.org/resources/state-government/>

## Charitable Solicitation Registration:

<https://www.councilofnonprofits.org/tools-resources/charitable-solicitation-registration>

**Not sure about whether you're operating in compliance?** Check out this guide (by state):

[https://www.harborcompliance.com/information/charitable-registration?utm\\_source=councilofnonprofits.org&utm\\_medium=referral](https://www.harborcompliance.com/information/charitable-registration?utm_source=councilofnonprofits.org&utm_medium=referral)

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## How is MoneyMinder Different?

For a small non-profit, QuickBooks can be overkill. But spreadsheets can contain hidden formula errors too easy to overlook. One is too big, one is too risky. Then there's MoneyMinder, accurate but not cumbersome, it's just right.

## Put your organization on the right path

Check out our suite of products:

[www.MoneyMinder.com](http://www.MoneyMinder.com)

(866) 346-4300



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