

Learn How to Start a Nonprofit Organization

Summary: *Starting a nonprofit organization is a great way to be involved in something you are passionate about that can help with the needs in your community.*



Nonprofit organizations generally describe organizations that serve a public purpose instead of providing a financial benefit to any particular corporation, entity, or individual. They are driven by a mission to serve and fulfill an unmet community need. No one person owns a nonprofit. It is instead managed by a governing board of directors.

The process for setting up a non-profit organization with tax-exempt status can be lengthy and challenging, but with some guidelines, the entire process should go smoother. Nonprofits are known by many different names – non-profit, charity, not for profit, independent sector, third sector, voluntary organization, social sector, and more. A nonprofit is not the same thing as a tax-exempt group, so you need to determine what kind of qualifications your company meets.

The IRS estimates that the Form 1023 application (the form needed in order to be recognized as a tax-exempt nonprofit organization) takes around 105 hours to complete. There are numerous other papers that you must also fill out. If you make even one mistake, it can slow down getting approved by 15-20 months. As soon as you get approved, donors can start making tax-deductible donations.

To start planning your nonprofit organization, you must start with a plan. Research the needs in



your community right now to make sure there is a need. Put together a team to help you develop strategic operational and fundraising plans. Now is the time to come up with the mission, the core activities, and how the program will be funded.

Next you can select a name for the nonprofit. The name should be something that describes the organizations mission, is easy for the public to remember, and isn't already being used by another business or group.

Start recruiting a board of directors. The board is accountable to the public, to the supporters, and to the beneficiaries. Each state has a different set of requirements on the number of directors needed, so check with your state's secretary of state.

Now select a legal structure for the nonprofit. There are several options to choose from, but the most common is a nonprofit corporation. Some of the less common options include L3C, nonprofit LLC, B-Corporation, a trust, and an unincorporated nonprofit association.

With everything put together so far, you can start preparing to file the state nonprofit certificate of formation. This certificate includes the purpose of the organization, name of the initial directors, name of incorporator, name and address of the registered agent, and the statement on membership.

Start drafting the bylaws for your nonprofit organization. These bylaws will guide the organization and set the rules of how the internal management of the organization will run. You do not have to file the bylaws with the secretary of state, but you do need to keep a copy of them at the principal place of business for the nonprofit corporation. A copy of the bylaws must also be signed by a corporate officer and submitted when applying for the federal tax exemption status.

Hold an organizational meeting of directors where the nonprofit will approve the bylaws, elect additional directors, appoint officers, and approve initial resolutions like opening a company bank account. Keep the minutes of this meeting.

File for your federal employer identification number even if there will not be any employees hired for the nonprofit. The number is used on all federal tax returns and receipts. It is also used to open a bank account. Complete IRS Form SS-4 (which is available on the IRS website) to request the EIN number.

Get working on the 1023 Federal Tax-Exemption Application so that your nonprofit can receive



501(C)(3) status. This is the most difficult and costly part of the process, ranging in cost from \$400 to \$850. Once approved, you will receive a Determination Letter from the IRS.

Now you can start working towards your state exemptions and other required permits. This will allow you to be exempt from sales tax, hotel occupancy tax, and franchise tax. Also make sure you register for charitable solicitation and fundraising.

If you would rather work at a nonprofit instead of creating one, you can [browse nonprofit job openings here](#).

Photo: forbes.com