

Non-Profit Organization

Structuring a non to profit organization is the same as business except, you are not “selling” a product or service. Not for profit organizations rely on funding from grants and donations to assist in a cause. In addition, non profits are Incorporated, recognized by their State, and granted tax-exempt status by the IRS. Donators can write-off their donations to your organization on their taxes.

To establish a non profit organization you will need to:

- Find people to help you start your nonprofit. Nonprofits are rarely produced by a single-minded visionary, and your chances of success increase with support from others.
- Plan your quest for nonprofit status before embarking on it. Start with a one- or two-page synopsis of your nonprofit intentions, including what you are trying to do and how you plan to do it. Make sure to list your resources, too. Then run it by your support network of people. This will help you to spot any "potholes" on your road to nonprofit status.
- Check out the competition in your area. Research to ensure there are enough potential clients, and if people will support your intended mission. Assessing the market for your nonprofit program before you establish it is the first step towards successful implementation.
- Expect to pay taxes on payroll. Nonprofit business may be tax exempt, but nonprofit employee salaries are not.
- Nonprofits rely heavily on charitable contribution and generous donations. To be a successful nonprofit, be prepared to fund-raise considerably and spend a lot of time competing for grants from governments, corporations and foundations.
- Don't expect to financially support a staff of employees. Over half of the nonprofit organizations in the U.S. choose to operate without paid staff, due mostly to the lack of funds.
- You cannot take any assets of the nonprofit with you if you decide to resign from it or terminate the nonprofit program. Assets accumulated by the nonprofit belong to the nonprofit only. Should the organization be dissolved or its operations closed (i.e., bankruptcy) the assets must be transferred or sold to a successor nonprofit and never taken as profit.

Ensure that your organizing document contains the required provisions. Review your organizing document to ensure that any required clause is present in the document, and in the proper form. Revise your organizing document, if necessary, before applying for exemption. The required provisions as of January 2012 are:

- **Purpose Clause.** Your organizing document must contain a purpose clause, which limits your purpose to charitable, religious, educational, scientific, literary, testing for public safety,

fostering national or international amateur sports competition, and/or preventing cruelty to people or animals. See Internal Revenue Service (“IRS”) Publication 557, located at <http://www.irs.gov/pub/irs-pdf/p557.pdf> for complete information and examples of acceptable language for your purpose clause.

- **Dissolution Clause.** Your organizing document must contain a dissolution clause, which distributes the organization’s assets for an exempt purpose, to the federal government, or to a state or local government for a public purpose, upon dissolution of the organization. See IRS Publication 557, located at <http://www.irs.gov/pub/irs-pdf/p557.pdf> for complete information and examples of acceptable language for your dissolution clause. Corporations and testamentary charitable trusts formed in certain states do not need to include a specific clause for the distribution of assets upon dissolution. Check with a Certified Public Accountant (“CPA”) or tax attorney for state specific information.

Determine your organizations charity status. An organization is classified by the IRS as either a private foundation or a public charity. Public charity status is a more favorable tax status than private foundation status. If you are a private foundation, you will need to further determine whether you are a private operating foundation. Use the following definitions to determine your charity status:

- **Private Foundation.** Organizations qualified for exemption under Section 501(c)(3) are private foundations unless they are an entity identified specifically as a public charity by the IRS.
- **Public Charity.** Public charities identified by the IRS include hospitals, churches, schools, governmental units, entities that perform public safety testing, organizations that have broad financial support from the general public, and organizations that support one or more public charities.
- **Private Operating Foundation.** A Private Operating Foundation is a Private Foundation that lacks public support, but makes distributions of at least eighty-five percent (85%) of its adjusted net income, or its minimum investment return, whichever is less, to itself to fund programs in order to carry out the purpose for which it was organized.
- You are required to submit the IRS Form 1023 for tax exemption.
- Prepare the IRS Form 1023 for tax-exemption. Identify on the form which public charity classification you seek for your organization and be prepared to provide evidence to support your decision (includes public support test and revenue sources). Attach a narrative description of the organization and describe activities; provide much more detail than the Articles of Corporation and make sure to describe the raising of funds, any involvement in foreign countries or organizations, and whether your organization will attempt to influence legislation. Report salaries and conflicts of interest. Provide financial information including estimated income and expenses for three years, the current year plus two additional years, and choose your annual accounting period.
- Submit all required documents for tax-exemption to the IRS. Submit completed IRS Form 1023, conformed (exact) copies of the Articles of Corporation, certificate of incorporation from the state (if provided), and by-laws. List your organization's name, address and EIN on every

attachment. Pay the appropriate fee: \$500 (anticipated revenue greater than \$10,000) and \$150 (certain that revenue will be under \$10,000). Anticipate a response from the IRS and approved tax-exemption within 15 months, but up to 27 months.

Complete all required Schedules. Organizations such as churches, colleges, universities, hospitals, Section 509(a) supporting organizations, organizations not filing Form 1023 within twenty-seven (27) months of formation, homes for the elderly or handicapped, low income housing, Successor's to other organizations, and others, must complete specific Schedules. See the chart located on page 3 of the IRS Instructions for Form 1023 located at <http://www.irs.gov/pub/irs-pdf/i1023.pdf> to determine which Schedule(s) your organization must complete.

For even more information, check out these links:

[Starting a Nonprofit](#)

- [Fundraising](#)
- [Grants](#)
- [Marketing/Promotion](#)
- [Charitable Giving](#)
- [Volunteers](#)
- [Nonprofit Profiles](#)
- [Resources/Research](#)
- [Glossary](#)
- [Nonprofit FAQs](#)
- [What to Consider Before You Start a Nonprofit](#)
- [Mission-Driven Fundraising](#)
- [Charitable Giving - an American tradition](#)
- [Updated Articles and Resources](#)