



Starting A Nonprofit

Starting a nonprofit organization is a complex and time-consuming endeavor. A nonprofit is a business and, just like a for-profit; it requires a collection of resources ranging from time and effort to financial support. While mission is always, the most important element of successful nonprofit, founders must also focus on business planning and legal compliance.

Before you start your own nonprofit, it is essential to understand if there are organizations in your community already providing the services and programming you want to deliver. Research potential sources of revenue for your program and determine if other members of the community will be supportive of your efforts (these could be future board members). We strongly encourage you to develop a business plan in advance of starting your nonprofit.

In order for your organization to be treated as tax-exempt for federal income tax purposes, and to receive tax-deductible contributions, it must receive a determination about its status from the IRS. To do this, you must file Form 1023, *Application for Recognition of Exemption under Section 501(c) (3) of the Internal Revenue Code*. **The 1023 Application is complicated – the IRS estimates that it takes a novice 100+ hours to complete. A successful application is only the first step to achieving and maintaining tax exemption and federal and state legal compliance.**

Important steps:

[Phase 1: Research and Organize](#)

- **ESTABLISH A PURPOSE**

The purpose of the organization needs to be exclusively charitable and/or educational, aligning with the restrictions of IRS §501(c) (3).

- **RECRUIT A BOARD OF DIRECTORS**

This should be a group of at least 5-7 unrelated individuals that will be responsible (legally) as fiduciaries for the organization's governance, finances, and legal compliance. "Unrelated individuals" means people who are not related to each other by family or business relationships. The most important quality of a successful board member is their commitment to your mission, but you want to recruit individuals that have skills to share with your organization.

- **RESEARCH SIMILAR ORGANIZATIONS**

Before you start your own nonprofit, it is essential to understand if there are organizations in your community already providing the services and programming you want to deliver. Conduct a market analysis to identify other organizations that have similar purposes to your intended organization. Such organizations are resources to help you determine the need in the community, the viability of your idea, the types of programs that already exist, and the level of support available, both financial and otherwise. Research potential sources of revenue for your program and determine if other members of the community will be supportive of your efforts (these could be future board members).

- **DEVELOP PROGRAM PLANS & A BUDGET**

You will need to describe your proposed program activities in detail. This includes exactly whom you plan to serve and by what means. Once you make those determinations, you will need to create a projected budget for your first three years. This includes all expected forms of income (grants, donations, fee for service, etc.) and necessary expenses to operate your business and deliver the programs described.

- **CREATE A MISSION STATEMENT**

Your founding board must articulate a mission for the organization: a clear, brief statement that tells the community what your purpose is, and what you wish to accomplish through your charitable efforts.

- **DRAFT BYLAWS**

Bylaws are the organization's rules for internal governance and dictate the specifics regarding how the board of directors functions and how important decisions are made and carried out. Bylaws should be signed by at least two officers and must be attached to the federal tax-exemption application (but do not need to be submitted to the State).

- **DEVELOP A CONFLICT OF INTEREST POLICY**

This policy will ensure that conflicts of interest are avoided whenever possible, and mitigated when decisions are made regarding the use of organizational resources. A conflict of interest policy and accompanying declaration of interest statement help to protect the organization and its board members in cases where competing interests exist. An organization's Conflict of Interest Policy should be attached to its federal tax-exemption application.

[Phase 2: Create a Corporation](#)

Before applying for federal income tax exemption, you should create a legal entity (corporation) by following the process outlined below.

- **FILE ARTICLES OF INCORPORATION (CORPORATE CHARTER)**

File Tax-Exempt Nonstock Articles of Incorporation. In order to have articles that will qualify

your corporation for Federal §501(c) (3) tax-exempt status, you must have a dissolution clause that meets the IRS' requirement that if your organization is dissolved, "assets will be distributed for an exempt purpose described in §501(c) (3), or to the federal government, or to a state or local government for a public purpose.

- **CONDUCT ORGANIZATIONAL BOARD MEETING**

At this meeting, board members identified in the Articles of Incorporation elect a slate of officers including President, Vice President, Secretary, and Treasurer, ratify bylaws, and accept Articles of Incorporation. The Secretary should record meeting minutes to create a record of the meeting and elected officers. **This meeting is required by law in order to complete the formation of your corporation.** Note: Founders must understand the difference between serving on the Board and serving as paid employees. We encourage founders to determine in advance of formation whether to serve as a volunteer board member or to serve as a paid staff member (for example, Executive Director).

- **OBTAIN FEDERAL EMPLOYER IDENTIFICATION NUMBER (EIN) FROM THE IRS**

You can file the form SS-4 online or by mail, phone, or fax with the Internal Revenue Service.

[Phase 3: Get Your 501\(c\) 3 Status](#)

Become a nonprofit organization by filing a 1023 Application with the IRS. Nonprofits obtain public charity status under Section 501(c) (3) of the Internal Revenue Code by filing an application with the IRS. Depending on its circumstances, an organization may file either the **Form 1023 Application** or the online-only **Form 1023EZ***. The time needed to complete this form varies greatly based on individual circumstances. The **Form 1023** (long-form) can be difficult to understand and extremely time-consuming. Answering incorrectly can jeopardize the application and your chances of success.

IRS FORM 1023 FILING FEES:

\$400 – if your projected gross revenue average is less than \$10,000 for the first three years.

\$600 – if your projected gross revenue average is greater than \$10,000 for the first three years After filing the Form 1023, IRS response time can vary, taking anywhere from 3-12 months before you receive your determination letter.

[Phase 4: Once You Have Your 501\(c\) 3](#)

Congratulations! You received your determination letter from the IRS and are tax-exempt! However, there are still some important legal requirements you will need to meet to obtain exemption from certain state taxes and to register to fundraise. Follow these important next steps to wrap up your work.

CHARITABLE SOLICITATIONS – REGISTER WITH SECRETARY OF STATE OFFICE

- Organizations that received less than \$25,000 in the previous fiscal year, file the [Exempt Organization Fund Raising Notice](#).
- Organizations that receive more than \$25,000 in the previous fiscal year, file the Registration Statement, or [COR-92](#) with necessary attachments.

[Other States](#)

REQUEST SALES & USE TAX EXEMPTION FROM THE COMPTROLLER

File the [Sales and Use Tax Exemption Certificate \(SUTEC\) Application](#) to:

- Apply for exemption from sales tax on purchases for your organization
- Establish payroll withholding account for employees, if applicable
- Filing for employees' unemployment insurance, if applicable
- Establishing workers' compensation coverage, if applicable

FILE FOR STATE INCOME TAX EXEMPTION

Send a letter to the Comptroller of the Treasury stating the charitable nature, purpose, and scope of your organization. Include a copy of the IRS' determination letter, a copy of your organization's bylaws, and a copy of the latest financial statement (which could be the COF-85, if you have not completed a tax year).

Phase 5: Maintain Your Nonprofit Status

REQUIRED FILINGS FOR KEEPING YOUR NONPROFIT STATUS ACTIVE:

- [PERSONAL PROPERTY RETURN](#)
Due every year by April 15. All business entities formed, qualified, or registered to do business in your state must file an Annual Report. If the business can answer yes to either of these questions, it must also file a personal property return:
 - Does the business own, lease, or use personal property located in your state?
 - Does the business maintain a trade's license with a local unit of government in your state?
- **FILE FORM 990-N, FORM 990-EZ, OR FORM 990 WITH IRS BASED ON ANNUAL GROSS RECEIPTS**
The form required depends on the organization's annual gross receipts. This form is due the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar year filer).
- **READ IRS COMPLIANCE GUIDE FOR 501(C)(3) PUBLIC CHARITIES**
- **READ "THE IMPORTANCE OF AN ACCURATE FORM 990."**
- **UPDATE SOLICITATION REGISTRATION ANNUALLY**
File an annual update of the forms listed above in "Once You Have Your 501(c) (3) – Charitable Solicitation Form (COR-92)" within six months of the end of the organization's fiscal year (other deadlines may apply in other states).
- **SUBSTANTIATION AND DISCLOSURE REQUIREMENTS**
Organizations must give written acknowledgment of charitable contributions and must make certain documents available publicly.
- **RESIDENT AGENT AND PRINCIPAL OFFICE**
Update resident agent and office information, as necessary, by filing a resolution with the [State Department of Assessments & Taxation](#).
- **MAINTAIN ACCURATE AND COMPLETE CORPORATE AND FINANCIAL RECORDS**

Adopt policies that ensure proper oversight and controls on financial matters and retention of documents.

- **OBTAIN ANY REQUIRED STATE OR LOCAL LICENSES OR PERMITS**

For more information; consult the State Department of Assessments and Taxation in your state for new business entities.

IF YOU HAVE EMPLOYEES AND/OR INDEPENDENT CONTRACTORS:

Failure to comply with some employment laws may expose individual Board Members to personal liability that is not covered by Directors' & Officers' Liability Insurance.

- Register employees with the comptroller's office in your state.
- Pay state employment and unemployment taxes
- Pay federal employment taxes
- Pay workers' compensation insurance
- Display required posters
- Obtain proper insurance for the organization, board members, and officers
- Assess all insurance needs for the organization, including general hazard, property, and Directors and Officers liability

FINANCIAL CONSIDERATIONS:

Together Women Rise **does not** serve as a fiscal sponsor; however, here is some information that may be of assistance to those exploring a fiscal sponsor relationship.

Fiscal sponsorship is often used by newly formed nonprofits that need to raise money during the start-up phase, before the IRS recognizes them as tax-exempt. Using a fiscal sponsor enables a program or organization that does not *itself* qualify as tax-exempt to attract funding for its operations that will -- through the fiscal sponsor - be tax-deductible to donors. Therefore fiscal sponsor arrangements benefit organizations or programs that are not tax-exempt by providing a flow-through pathway for revenue that the organization may not otherwise be in a position to receive.

A *fiscal agent or sponsor* is a third-party organization that handles various financial and administrative *duties* on behalf of some other party. The fiscal agent is responsible for **receiving and safeguarding your grant funds**. Legally, the fiscal agent is obligated to: maintain its own records of disbursements related to the grant, keep receipts for at least three years following receipt of the grant.

It is best to outline the responsibilities and obligations of both parties in a **written agreement** between the fiscal sponsor and the sponsored organization.

How does it work?

A project/organization identifies another nonprofit (one that is already tax-exempt and generally has a similar mission) to agree to serve as its fiscal sponsor, which means that it is agreeing to accept the administrative and fiduciary responsibilities of receiving charitable gifts on behalf of the sponsored project/organization.

- The fiscal sponsor must first determine that serving as a fiscal sponsor is consistent with its mission (and does not [jeopardize its own tax-exempt status](#)).

- Donations are made *to the fiscal sponsor*, not to the sponsored program/organization directly. Since the fiscal sponsor is tax-exempt, the donor's contribution will qualify as a deductible contribution.
- The fiscal sponsor then makes a "grant" to the sponsored project/organization.
- The fiscal sponsor is responsible for sending donors [gift acknowledgements](#) and for reporting the income and expenditures in its own financial records (such as the IRS Form 990). The sponsor is also responsible for serving as a fiduciary for the contributions made to benefit the sponsored program, so honoring restrictions placed on the gifts by donors, and making prudent decisions about financial management and internal controls in connection with funds received, are all the responsibility of the sponsor.
- The sponsored project/organization is responsible for whatever recordkeeping and reports it agrees to provide to its sponsor and anything else that is documented as its responsibilities in any written agreement it has with the sponsor, or if the sponsored project is a corporate entity, any [legal filing obligations it may be responsible for under state law](#).

The [Fiscal Sponsor Directory](#) allows you to search by state, service category, or keyword for nonprofit fiscal sponsors. Profiles include eligibility requirements, fees, services, and types of projects supported. The site also provides statistics and resources on fiscal sponsorship.

Several organizations with experience serving as fiscal sponsors include: [TSNE MissionWorks](#); [Fractured Atlas](#) (sponsors artists and art organizations); [Visions Made Viable](#) (incubator for a wide variety of domestic and international projects and programs, many of them faith-based); [Social and Environmental Entrepreneurs](#) (sponsors programs focusing on social justice and ecological restoration); [Tides](#) offers a comprehensive fiscal sponsorship program for hundreds of projects around the world.

Sample Fiscal Sponsor Agreement

The Fiscal Sponsor has determined that sponsorship of the Project would be consistent with its goals, and wishes to make arrangements with the Sponsored Organization for the implementation and operation of the Project.

1. The Fiscal Sponsor hereby agrees to sponsor the Project and to assume administrative, programmatic, financial, and legal responsibility for purposes of the requirements of funding organizations. The Sponsored Organization agrees to implement and operate the Project, in accordance with the terms of this agreement and with any requirements imposed by funding organizations.

2. The Project shall be operated in a manner consistent with the Fiscal Sponsor's tax-exempt status and as described in this agreement. No material changes in the purposes or activities of the Project shall be made without prior written permission of the Fiscal Sponsor and in accordance with any requirements imposed by funding organizations, nor shall the Sponsored Organization carry on activities or use funds in any way that jeopardizes the Fiscal Sponsor's tax-exempt status.

3. The Sponsored Organization shall not, and shall not permit the Project to, attempt to influence legislation, participate, or intervene in any political campaign on behalf (or in opposition to) any candidate for public office or otherwise engage in the carrying on of propaganda (within the meaning of section 501(c) (3) of the Internal Revenue Code of 1986).

4. The Sponsored Organization will provide the Fiscal Sponsor with reports describing programs and services of the Project in accordance with the following schedule:

[add here]

5. The Sponsored Organization will provide all information and prepare all reports, including interim and final reports, required by funding organizations, with the Fiscal Sponsor's assistance and final approval.

6. On behalf of the Sponsored Organization, the Fiscal Sponsor will establish and operate for the use of the Project a designated account ("Account") segregated on the Fiscal Sponsor's books. All amounts deposited into a Project's Account will be used in its support, less

administrative charges, if any, and subject to the conditions set forth below.

7. The Fiscal Sponsor will disburse funds from the Account in the following manner:

[add here. For example, as instructed in writing on properly filled-out Fiscal Sponsor vouchers accompanied by required documentation and only as authorized by this agreement.]

Disbursements will be restricted to the support and implementation of the Project only.

8. The Sponsored Organization designates _____ (name) to act as authorizing official. The authorizing official shall act as principal coordinator of the Project's daily business with the Fiscal Sponsor, and shall have authority to sign disbursement requests [add additional authority, at no time should a person approve their own disbursement].

9. The Fiscal Sponsor and Sponsored Organization will maintain all financial records relating to the Project according to generally accepted accounting principles, retain records as long as required by law, and make records available to auditors as required by law.

10. The Fiscal Sponsor and the Sponsored Organization will reflect the activities of the Project, to the extent required, on their state and federal government tax returns and financial reports. All disbursements from an Account shall be treated as payments made to or on behalf of the Sponsored Organization to accomplish the purposes of the Project. The Sponsored Organization will provide the Fiscal Sponsor with proper documentation to accomplish this, including furnishing the Fiscal Sponsor with the Sponsored Organization's Federal Employer Identification Number.

11. [[optional] In consideration of the Fiscal Sponsor's agreement to sponsor the Project, and to cover the Fiscal Sponsor's expenses in connection with the Project as outlined above, the Project will pay the following fees, charges, and expenses:

(add here)

12. This agreement will be subject to review [set forth time period, e.g. annual], and will terminate if any of the following events occur:

[set add here. For example:

a. The Fiscal Sponsor requests the Sponsored Organization to cease activities that it deems might jeopardize its tax-exempt status and the Project fails to comply within

a period of ten (10) days;

b. The Sponsored Organization fails to perform or observe any other covenant of this agreement, and this failure remains un-remedied fifteen (15) days after notice in writing;

c. Upon expiration of four weeks after either the Sponsored Organization or the Fiscal Sponsor has given written notice of its intent to terminate the agreement.]

13. In the event this Agreement is terminated, the Fiscal Sponsor and Sponsored Organization will comply with any termination conditions imposed by funding organizations.

In witness whereof, the parties hereto have executed this Agreement on the day and year first written above.

Accepted for the Fiscal Sponsor:

Authorized signer

Date

For the Sponsored Organization:

Authorized signer

Date