



How to Start a Nonprofit 501(c)(3) Organization

USDA Rural
Development

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Cooperative
Programs

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CD Technotes

- ❖ Is your community or institution considering applying for grant or foundation money for community development needs?
- ❖ Does your community need help attracting tax-deductible contributions for its development priorities?
- ❖ Would your community want a group dedicated to helping plan for its development and seeking out new opportunities?

If so, your community or organization should consider establishing a nonprofit corporation, which can obtain and administer grants and tax-deductible contributions under its tax-free status.

What is a Nonprofit Organization?

A corporation or an organization classified as a nonprofit entity is exempt from paying income taxes. Congress passed this exemption, recognizing certain enterprises should be free from the burden of having to pay taxes—mainly those that exist for the public benefit. Such entities are now sanctioned under section 501(c)(3) of the Internal Revenue Code.

To qualify for tax-exempt status, the organization must be a corporation, community chest, fund, or foundation. A nonprofit organization, by definition, provides some service to the community and often includes the planning and creation of projects or programs for the community's general welfare. Specific examples of nonprofit organizations include those that provide public service in the arts, community planning, healthcare, education, the environment, or economic development. Nonprofit organizations can use donation and grant monies to provide these services or to develop their capacity to serve by collecting public feedback, analyses of development trends (economic, social, environmental, etc.), and academic literature.

Congress sets requirements and limitations on the activities of 501(c)(3) organizations through strictly-enforced rules as a trade-off for their exempt status. However, nonprofit corporations are not prohibited from making a profit—but there are limitations on how they can make and spend money.

Why Start a Nonprofit Organization?

- Creating a nonprofit organization allows your group/community to apply for exemption from paying income taxes while collecting private and public funds for development purposes.
- This organization can be dedicated to advancing its own particular mission while it advances the overall community's prospects for development.
- The organization's leaders can serve as participants on the *steering committee* (the lead entity) for your community's own community development process (see Technote-8).

How to Start a Nonprofit Organization

1. Organize a group of interested parties to determine what status the group wishes to pursue.
2. Call your secretary of state's office to check for the availability of your organization's proposed name and ask for information on how to file application for incorporation.
3. Write and file Articles of Incorporation with your secretary of state to become incorporated. Write the articles in general terms as they are difficult to amend once established. Include certain Internal Revenue Service (IRS) "organizational test language" to ensure that the group's activities are legally tax-exempt.
4. Write bylaws to address issues, such as membership, board-of-director policies, fiscal management, and amendments. They are fairly easy to amend and need not be as definitive as the Articles of Incorporation.
5. Obtain tax-exempt status from the IRS. Call the IRS (800/829-3676) or apply online at <http://www.irs.gov/charities/charitable/index.html> (click on "Application for Recognition of Exemption," click the "online" link, and follow the instructions) and request the following documents:
 - **IRS Publication 4220**, "Applying for 501(c)(3) Tax-exempt Status" (provides basic info on the 5 w's of exemption);
 - **Form SS-4**, "Application for Employer Identification Number (EIN);"
 - **Form 1023**: "Application for Recognition of Exemption;"
 - **Form 2848**, "Power of Attorney/Declaration of Representation" (optional; only if someone other than your organization's principle officer or director will represent you on matters about the application);
 - **Form 8821**, "Tax Information Authorization" (optional; if you want the IRS to be able to provide information about your application to an employee other than a principal officer or director.)

Consider hiring an attorney to help guide you through the process of filing for 501(c)(3) status; many will provide this service for free. As for filing these documents with the IRS, first file Form SS-4 to obtain your new EIN number. Then, file Form

1023 within 15 months of the founding of your organization, explaining the purpose of your organization and why it should be exempt from taxation. Forms 2848 and 8821 should be attached to Form 1023 only if applicable.

6. The IRS will also review your group's proposed legislative activities by looking at the amount of staff time, resources, and effort you propose to expend on lobbying. The IRS only allows 501(c)(3) organizations a limited ability to lobby for legislation (if lobbying constitutes a substantial part of your operations, you may lose your tax-exempt designation), and no opportunity whatsoever to campaign for a candidate's election. However, 501(c)(3) organizations are allowed to freely advocate for any non-legislative issue.
7. Once tax-exempt status is achieved:
 - Call your State's Department of Revenue to receive an Application for Certification of Exempt Status and, if necessary, an Application Business Registration Form in order to obtain a tax-identification number;
 - Call your State Attorney General's Office, Charities Division, to register as a charitable organization; and
 - Acquire Form 990 from IRS if gross receipts in each tax year total \$25,000 or more.
 - Check to see if your State government has any resources for non-profits.
 - Consider joining your State's non-profit associations, particularly those associations with a community development theme.

Additional Resources

- **Foundation Center** – <http://www.foundationcenter.org>
- **GuideStar.org** – <http://www.guidestar.org>
- **USDA Rural Information Center – Volunteer and Nonprofit Org. Resources**
<http://www.nal.usda.gov/ric/ricpubs/volunteerism.html>
- **Federal tax information**
 - IRS Charities Webpage – <http://www.irs.gov/charities/index.html>
 - IRS Exempt Organizations (EO) – <http://www.irs.gov/eo>
 - IRS EO Phone Number – 1-877-829-5500