

Starting a 501(c)(3)

1. Step 1: Get clear on your purpose.

Getting a clear purpose for your non-profit is an essential initial task. A written “purpose statement” should succinctly set forth the organization’s long-range aspirations, within a focused framework of plans and programs. The purpose statement is stated in the Articles of Incorporations as well as the By Laws.

The purpose statement should generally be fifty words or less, allowing it to be specific, memorable, and easy to share with others. It should be broad enough to allow for growth and program expansion, yet narrow enough to demonstrate tax-exempt qualification and to shape organizational decision-making.

2. Step 2: Deciding the type of nonprofit.

A charity's articles of incorporation must limit the corporation's purposes to one or more of the exempt purposes set forth in Section 501(c)(3) of the Internal Revenue Code. You must fall into one of these 8 broad categories in order to apply for tax exemption:

- Charitable (including poverty relief, combating discrimination, advancing education, etc.)
- Religious
- Educational
- Testing for public safety
- Literary
- Youth/amateur sports competition (if no part of its activities involve the provision of athletic facilities or equipment)
- Scientific
- Cruelty prevention for children and animals.

3. Step 3: Name your nonprofit.

Every state in the United States has different rules and regulations when it comes to establishing a nonprofit. However, it’s safe to say you should select a name that’s unique and somehow related to the main activities of your nonprofit.

This decision will set the tone and influence your nonprofit’s brand for years to come, so it’s smart to take some time to think through this decision.

Make sure your nonprofit's name is easy to say and remember. Use descriptive words, but try not to overdo it or make it too long. Don't use technical/industry-specific jargon. Abbreviations are good if you use them well.

Many states require that nonprofits have a corporate designator, such as Incorporated, Corporation, Company, Limited or their abbreviations (Inc., Corp., Co., and Ltd respectively). Check your state's incorporation web page to see if a corporate designator is required for your nonprofit.

When you have selected your name, you need to check with your Secretary of State to see if it is available and the U.S. Department of Commerce, <https://www.uspto.gov/trademark>, website to be sure the name you want is not trademarked.

4. Step 4: Form a Board.

Forming a board before incorporating is generally a good idea. Some states require that you list the names of your board members in your incorporation documents. Even if your state doesn't require this, recruiting a board prior to incorporating is helpful.

Your board can help you with the incorporation and the rest of the sometimes-challenging process of establishing a nonprofit. Hiring the right board is essential for the success of your nonprofit.

Who the "right" board members are will depend on your nonprofit. However, whatever the size or the purpose of your nonprofit – it's essential to hire board members who are dependable, committed and aligned to your mission and values.

It's also recommended that you recruit a board whose members all have different but relevant expertise (e.g. finance, fundraising, marketing, etc.).

Take time to define their roles and job descriptions before starting with the recruitment.

It might also be helpful to create some onboarding files or an orientation guide for your new board members. You could also create a welcome event where everyone would get to know each other.

5. Step 5: Let's write the Bylaws.

The bylaws contain the operating rules and provide a framework for your management procedures. They are the tools of internal accountability and they outline the inner workings of your nonprofit.

The power to adopt, amend or repeal bylaws is vested in the board of directors. This is unless otherwise provided in the articles of incorporation or in the bylaws.

Bylaws contain the rules and procedures for things like holding meetings, electing directors, appointing officers, and taking care of other formalities.

Note:

An organization that is exempt from federal income tax, as described in Internal Revenue Code 501(c)(3), is required to report changes to its bylaws and other governing documents annually to the IRS on the organization's IRS Form 990 – which is part of ensuring ongoing compliance.

Feel free to look up bylaws templates online. However, note that not all templates contain the required elements to obtain tax-exempt status. In order to obtain the 501(c)(3) status, you must include language in your articles of incorporation specifically stating that:

- *The corporation's activities will be limited to the purposes set out in section 501(c)(3) of the Internal Revenue Code.*
- *The organization will not engage in political or legislative activities prohibited under section 501(c)(3).*
- *Upon dissolution of the corporation, any remaining assets will be distributed to another nonprofit, government agency, or for another public purpose.*

See [IRS Publication 557](#) for more detailed guidance and [sample language](#).

Contact your state office, (usually the Secretary of State) that oversees incorporation and ask for a template for your bylaws that you can use.

6. Step 6: File your incorporation paperwork.

Having chosen a name for your nonprofit and appointed a board of directors, completing and filing your incorporation paperwork should be simple.

Within your incorporation paperwork, you will be officially declaring your organization's name, location, purpose, the initial board of directors and more.

You must file "articles of incorporation" with your state's corporate filing office. Experts recommend that you incorporate in the state where you will conduct your nonprofit's programs or services.

If you want to incorporate in another state, you would need to register and apply for separate tax exemptions in each state in which you conduct activities.

Filings and fees will vary by state. Incorporating your nonprofit does not make it 501(c)(3) exempt. The IRS requires you to include specific language in your articles of incorporation for those intending to apply for federal tax-exempt status.

After completing your paperwork, you will be ready to send them to your state filing office (in most cases, this is your secretary of state.) The requirements will vary from state to state. Some may want you to submit your articles electronically, others may ask for multiple copies sent via mail, etc. After filing your articles, many states also require you to publish a notice of incorporation with your local newspaper.

Note:

Obtain a federal employer identification number (EIN) prior to applying for 501(c)(3) tax exemption, even if you don't have employees. You can do this quickly and easily. For information on how to apply for an EIN, including information about applying online, visit the IRS website at www.irs.gov.

EIN will be used to track your organization's financial activity and make it possible to open a business bank account and to hire paid employees. Pretty much every major transaction your nonprofit engages in will require an EIN.

When the state approves your articles of incorporation, you should organize your first official board meeting. The chair of the meeting should report to the board that the state has approved the articles. At this point, the board needs to make the Articles of Incorporation as part of the official record. Then it is time for the board to officially approve your bylaws and elect your board officers.

7. Step 7: File for 501(c)(3) tax-exempt.

You apply for exempt status with the Internal Revenue Service (IRS) for recognition of tax exemption by filing IRS Form 1023. To get the most out of your tax-exempt status, file your Form 1023 within 27 months of the date you file your nonprofit articles of incorporation.

Be aware, the user fee will be **\$275** or **\$600**, depending on your application method. It also can take 3-12 months for the IRS to return its decision, depending on how many questions the IRS has about your application. That's why many experts advise starting with this process as soon as possible.

Form 1023 itself is up to 28 pages long. Including the required attachments and other supporting documents, an application package can be more than 50 pages long.

The 501(c)(3) application process is a thorough examination of your nonprofit's governing structure, purpose and planned programs. The IRS is looking to make sure that the organization is formed for exclusively 501(c)(3) purposes and that its programs are designed to fulfill these stated purposes. In addition, the IRS is looking closely for conflicts-of-interest and the potential for benefit to insiders, both possible grounds for denial.

It is also possible that you can use a shorter application form (1023-EZ):

- Form 1023: The traditional 26-page application that is used by larger nonprofits
- Form 1023-EZ: A condensed 3-page application that can be used by organizations with gross receipts of less than \$50,000 and less than \$250,000 in assets.

Check the IRS website and instructions to the form which include an Eligibility Worksheet you must complete to determine if your nonprofit meets the requirements for using the shorter streamlined form.

You must also include your nonprofit articles of incorporation and your bylaws with this application.

So, before you start filling out form 1023, be sure you have:

- Filed your articles of incorporation
- Prepared your bylaws
- Held your first nonprofit meeting

The IRS is going to ask for some specific details to be documented in your application. So be ready to spend a few days filling out this form and gathering your resources. Your articles of incorporation and/or your bylaws are going to have to include:

- a statement of your exempt purpose(s), (such as charitable, religious, educational, and/or scientific purposes)
- a dissolution clause
- a conflict of interest clause

8. Step 8: Ensure ongoing compliance.

The work doesn't stop there. Once the state approves everything, you should prepare for annual reporting requirements.

In most cases, an exempt organization must file some version of Form 990 with the IRS, depending on its financial activity. Form 990 shows your finances, activities, governance processes, directors, and key staff, and it is open to public inspection.

States have their own reporting and renewal requirements too. Therefore, consider tracking your organization's finances and activities throughout the year. This will help the reporting happen smoothly.

Recommendations:

Many recommend keeping a corporate record book where you keep all critical documents (including registration papers, licenses, and permits, meeting minutes, etc.) to ensure you're well-organized and fully compliant.

Furthermore, most experts recommend that you do not fundraise until you've received your letter of determination from the IRS stating that you are now tax-exempt.

If you receive a proposed denial of tax-exempt status and you wish to appeal, consider seeing a lawyer with experience of working with nonprofits.

Websites:

<https://www.501c3.org/how-to-start-a-501c3-nonprofit/>

<https://nonprofitally.com/start-a-nonprofit/>

<https://www.upcounsel.com/how-to-start-a-501c3>