How to Start a 501(c)3 Nonprofit Organization

What is a 501(c)3?

- A 501(c)3 is a charitable organization exempt from paying federal taxes that for-profit companies are required to pay.

- To maintain 501(c)3 status, organizations must keep detailed financial records, and file both state and federal tax forms each year.

If a charitable organization isn't the right fit for you, you may consider one of the many different 501c tax exempt statuses here: https://www.irs.gov/pub/irs-pdf/p557.pdf

Keep reading for a guide on How Start A 501(c)3 Nonprofit In 5 Steps

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Step 1:
Assess Feasibility and Need

The nonprofit space can be very oversaturated. Set yourself up for success by making sure you have the resources, and the community has a need before you start. Forbes Advisor suggests answering the following questions before taking the first step to start your nonprofit.

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Assess Feasibility

- **Do I have the financial resources to start a nonprofit?** Starting a nonprofit costs between $2,500 and $5,000. These costs go into legal, registration and business startup costs.

- **Do I have enough people to start a nonprofit?** Starting a nonprofit necessitates selecting a board of directors and enough volunteers or staff to put together and run your programs. Make a list of the people you have in mind to help you start your nonprofit, including their skills. Make a note of any skill gaps to ensure you fill them through further brainstorming.

- **Are people excited to support my cause?** If your community is not enthusiastic about your mission, it is unlikely they will donate to keep your programs running.

- **Will the economy support a nonprofit startup?** If people in your community are struggling to feed their families, they are unlikely to be able to financially support your cause.

- **Do you have the ability to commit to your nonprofit**? Nonprofit organizations, like any business, require time and effort to start and run. They are rarely a part-time effort for a founder. Look at your current responsibilities and decide whether you can take on a large initiative.

- **What strengths, weaknesses, threats and opportunities will my nonprofit face?** Consider internal factors that could impact the success of your organization. In doing so, at minimum, think about skill gaps within your team, potential partnerships or large donors, the organization's ability to handle dips in donations, your experience, your unique ability to meet beneficiary needs and how you compare to your competitors.

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Assess the Need

- **Is my organization meeting a truly unmet need?** There is a difference between needs and wants. Consider whether your mission fills a recognized need in your community. If it does not, donor dollars may go to an organization that is fulfilling a need before going to your cause.

- **What competitors are currently working on meeting the need?** Use a nonprofit locator tool to assess what other organizations are fulfilling exact or similar needs in the community you will serve. If another organization is fulfilling your mission in your target service area, the redundancy of services will mean you will have to compete for donor and grant dollars.

- **How is my service offering different from the offerings of my competitors?** If you discover that another organization is already fulfilling your target mission, consider adjusting your mission to fulfill a need they are not already meeting.

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Step 2:
Build a Strong Foundation

Establish your **mission**, **vision**, **values**, then **select the name** of your nonprofit and **appoint your board of directors**.

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Establish Your Mission, Vision, and Values

Franchise For Good offers **free resources** that will help you establish an impactful

- Mission and Vision
- Core Values

These resources are free to access at franchiseforgood.org/free-resources.

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Select a name for your nonprofit that is:

1. Inspired by your mission, vision, and values

2. Easy to remember

3. Descriptive of your organizations purpose

4. Short enough to fit on a logo, social media handles, domain names, and other places you will use your organization's name

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Make Sure the Name is Available

Once you have chosen a name, check to ensure it is not already taken.

1. Search to ensure your domain isn't already in use using a tool like GoDaddy's Domain search tool.

2. Check with your state's business filing agency to ensure your company name isn't already in use in your state.

3. Ensure your organization's name isn't trademarked, consider taking advantage of Legal Zoom's trademark Check services.

(https://www.forbes.com/advisor/business/how-to-start-a-nonprofit/)

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Select A Board of Directors

1. Make a list of the skills and expertise that you need to successfully fulfill your mission. Most nonprofits need financial, marketing, legal and industry-specific skills and expertise to fulfill a mission.

2. Create a list of people with these qualifications and that share an interest in your cause.

3. Contact those people to discuss involvement with your nonprofit. To assess them for board positions, ask them to volunteer before committing to a board role.

(https://www.forbes.com/advisor/business/how-to-start-a-nonprofit/)

Here are two sites to reference about how to manage your Board of Directors:

- Best Practices for Nonprofit Boards of Directors by Ideals Board

- Good Governance Policies by the National Council of Nonprofits

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Step 3:
File Articles of Incorporation

When you file articles of incorporation, you are requesting to be recognized as a business by your state. Once approved, your initiative is legally a business. However, your business is not yet tax-exempt (we will get there in step 4).

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File Articles of Incorporation

To file your articles of incorporation, you must first find out what office in your state is the state's business filing office. The name of this office is different in each state as are the steps and documentation needed to complete this filing.

For example, in Florida, you must file your articles of incorporation with the Florida Department of State's Division of Corporations. You must also register with the Florida Department of Revenue. To find out what forms you need to fill out and any additional required steps or documentation, you can visit the State of Florida website.

Access the IRS's webpage of State Links of Exempt Organizations to research the process in your state.

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Additional Resources to File Articles of Incorporation

Michigan's list of forms to file for new corporations

- Notice there is a different form to file for nonprofit organizations than for-profit organizations.

- Here's a direct link to the form for Michigan.

If you'd like more support along the way for this section of filing, here is a link to LegalZoom's support options for starting a nonprofit.

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Apply for Your EIN Number

To legally conduct business in your state, you must also apply for a federal employer identification number (EIN).

You can apply for your EIN easily online using EIN Assistant. Be sure to download Adobe Acrobat before filing so you can receive your confirmation letter online instead of waiting for it by mail.

Or access the form directly here.

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Step 4:
File for Tax-Exempt Status

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File Form 1023 or Form 1023-EZ

Please note that different 501(c) organizations has a different applications. This guide will only provide steps to filing for 501(c)3 tax-exempt status.

To apply for 501(c)3 tax-exempt status, you must file Form 1023 or Form 1023-EZ.

To learn which form your organization is eligible to file and how to file each one, visit https://www.irs.gov/forms-pubs/about-form-1023.
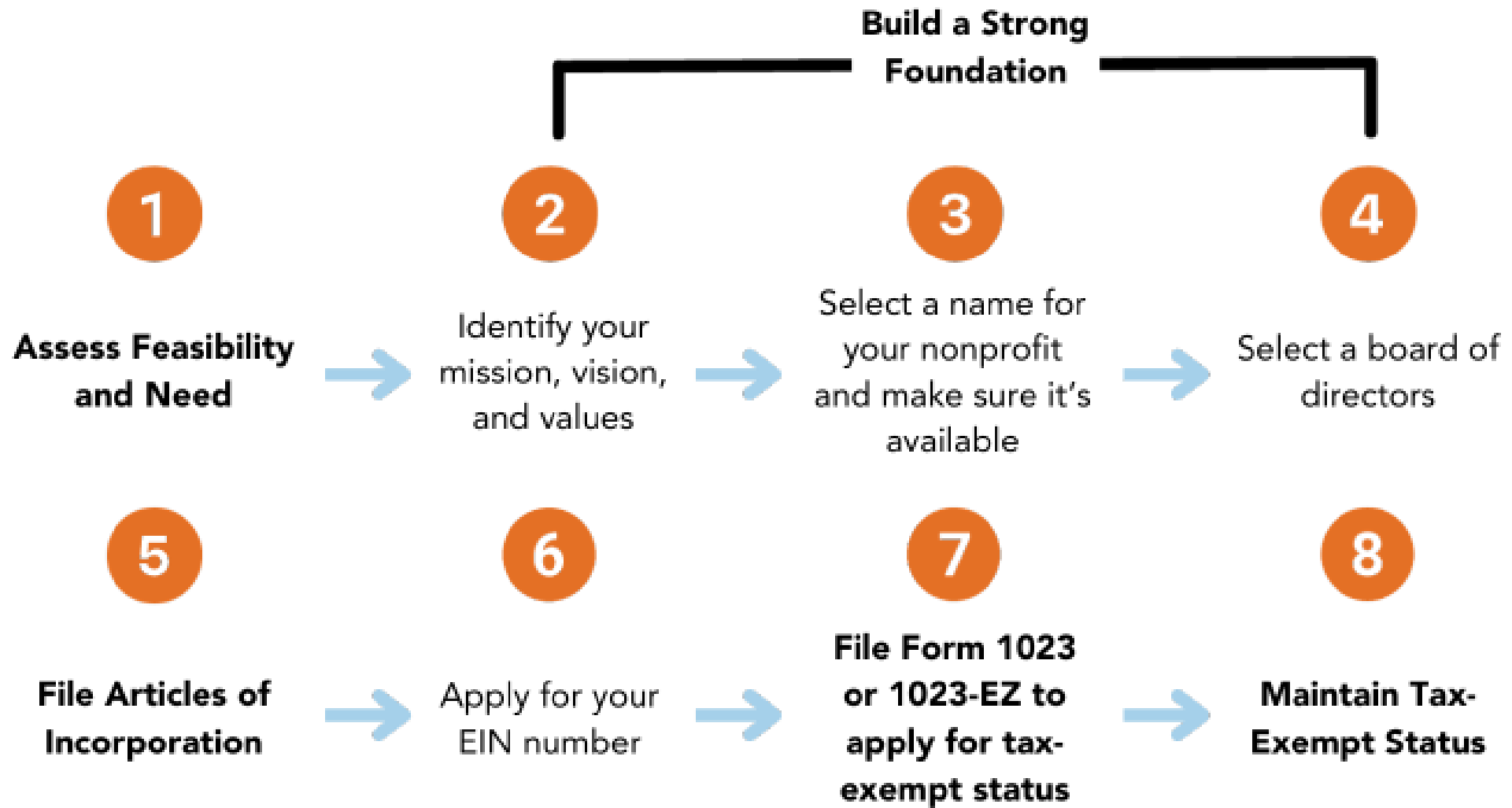
To check your eligibility to file for 501c3 status with the 1023-EZ form, refer to the Eligibility Worksheet on page 13 of the Instructions for Form 1023-EZ.

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Step 5:
Maintain Tax-Exempt Status

Keep Records and File Tax Forms Annually

- **Adhere to your bylaws.** Your bylaws offer a plan for running your nonprofit in a legal, ethical and impactful manner. They include details about when your board should meet, how to avoid conflicts of interest and how donor dollars should be spent. Follow your bylaws carefully and use them for all decision-making to keep your nonprofit healthy and, so, tax-exempt.

- **Keep detailed records.** Records should be kept all year regarding your nonprofit's activities. Specifically, to keep your tax-exempt status, it is imperative to keep careful financial records, including all organizational expenses, revenue, grants given and received, bank statements and canceled checks. Proving your organization is using funds solely for donors' intended purpose is key to keeping your tax-exempt status.

- **File federal tax forms annually.** On an annual basis, file at minimum a 990 Form (or 990-EZ form if your annual revenue is less than $50,000). This form shows how your nonprofit handles raised funds and avoids conflicts of interest. It is also made available to potential donors. Not only does it help you keep your tax-exempt status, but it helps you to attract new donors by proving your credibility and ethical use of funds.

- **File state tax forms annually.** Many states require nonprofits to file a request on the state level to solicit donor funds from state residents. Others, such as Texas and California, require you to file for corporate tax exemption. File this paperwork annually with your 990 Form attached if required in your state. Doing so will allow you to keep your tax-exempt status on a state level and solicit the funds to keep your nonprofit running

(https://www.forbes.com/advisor/business/how-to-start-a-nonprofit/)

Process Overview

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Build a Strong Foundation

1

Assess Feasibility and Need

2

Identify your mission, vision, and values

3

Select a name for your nonprofit and make sure it's available

4

Select a board of directors

5

File Articles of Incorporation

6

Apply for your EIN number

7

File Form 1023 or 1023-EZ to apply for tax-exempt status

8

Maintain Tax-Exempt Status

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It's our mission to transform lives by scaling and growing nonprofit businesses via a franchise system model and best practices.

We can help you **grow in place** or **add locations.**

Check out the <u>services</u> we offer to nonprofits like yours!

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