



10

Essential Steps to Starting a Nonprofit

Why start a nonprofit?

As an agent of change in the world, you want to make a difference and have passion for a cause, a mission or a community need. You want to move deeper into your calling but may be slowed or stopped by lack of clarity; uncertain of the steps to move forward. Starting a nonprofit may be the way for you to pursue your dreams.

- You want to raise tax-exempt funds and be able to offer tax-deductions to your donors.
- You want to create a structure so others can join you to expand your vision.
- You want your mission to continue without your leadership if you move on.
- You want to protect your personal assets from liability.

How does the IRS define a nonprofit?

- It has a 501c3 tax-exempt status granted by the IRS after requirements are met and the 1023 application is filed and approved.
- It is formed exclusively for charitable, educational, religious or scientific purposes.
- There is no benefit to individuals, shareholders or private interests. If the organization dissolves, all assets must be given to another 501c3 organization.
- It does not influence legislation or participate in political campaigns as a substantial part of its activities.

Step 1 - Develop Your Vision and Mission and Values

Vision: How will the world be different through your work?

Mission: What is your day-today focus, and activities you will do to accomplish your vision?

Values: What beliefs are core to how you will operate and drive your organization?

Step 2 - Determine Your Name & Its Availability

After you determine a name for your organization, you have to make sure that it is available to use.

Search the business section of the Secretary of State website in your state to ensure the name you choose is available. **Do not** reserve it until you have determined if the IRS will issue your EIN with that name (Employer Identification Number).

Step 3 - Form Board of Directors & Establish Bylaws

Every nonprofit must form a Board of Directors. You need a minimum of 3 members to legally form, but the ideal Board would be an odd number of members between 7 and 11. As a corporation, the Board has financial and legal responsibilities that are detailed in the Bylaws-- which are an organization's internal operating rules.

The incorporator can appoint the initial Board members and officers, who will be officially elected at the first Board meeting.

Federal tax law does not require specific language in the Bylaws. Just search online for “nonprofit bylaws” and you will find several samples. The IRS requires you to have a Conflict of Interest Policy, which you can include in your Bylaws.

Have Your Initial Board Meeting

These are some of the actions the board needs to take at the first meeting:

1. Adopt the Bylaws
2. Elect the officers
3. Adopt a fiscal year end (such as December 31 or June 30)
4. Approve filing for Articles of Incorporation
5. Approve establishing the bank account
6. Approve the application for federal tax-exempt status
7. Approve any compensation for the Executive Director/President

Step 4 - Obtain Your EIN from the IRS

Go to IRS.gov. Type EIN in the search bar. They will ask for your legal name and address, and the SSN of the applicant. Once it's approved, you can download it from the website. This document is extremely difficult to get later, so keep it in a safe place.

Step 5 - File Articles of Incorporation in Your State

Each state's Articles of Incorporation are different. In some states you apply and are immediately approved online. In others, you apply online and have to wait a week or more for approval which can take several weeks. Still others, you complete a PDF form, mail it in, and wait for the approval, which can take several weeks.

You will need an incorporator, street address, registered agent, purpose statement, and a dissolution clause. Some states require you to list the names and addresses of your board members. The fee varies by state but it will range between \$30-\$70 to file.

Step 6 - Open a Business Bank Account

Once you have your EIN and Articles of Incorporation, you should be able to open your bank account. Some banks may require you to also have your Bylaws completed first.

Step 7 - File the IRS Form 1023

You are now ready to file for your tax exemption with the **1023 Application for Exemption**.

Create an account at www.pay.gov and complete the application. The filing fee is \$600 for the long form and \$275 for the 1023EZ. (To be eligible to file for the 1023EZ, you would expect to have under 50k in revenues each year for the first 3 years of your operations.) This tax-exempt approval can take from 2-8 months to obtain. The good news is you can begin accepting donations from the date of filing. You don't need to wait until it's approved as long as you let your donors know in advance that if your approval is not granted, their donation would not be tax deductible.

Step 8 - File for Charitable Recognition in Your State

Each state has different requirements for Charitable Registration filing. This registration is what you need to fundraise. In most states, you can wait till you receive your IRS tax-exempt approval.

Review your state's requirements here

<https://www.irs.gov/charities-non-profits/charitable-organizations/state-charity-offices>

Step 9 - Wait...Wait...and Wait Some More

The IRS is quite backed up with processing these applications, so it could take 2-8 months for final approval which they will send to you by mail. If you want to contact the IRS to learn the status of your application, their number is 800-624-1373 and they are available M-F, 8-7 EST. You can also check their website at this link and type in your organization's name and EIN. Once it is approved it will be listed here. <https://apps.irs.gov/app/eos/allSearch>

Step 10 - File for Tax-exempt Status in Your State

Some states require you to also obtain tax-exemption. Once the IRS grants your tax-exempt status you may need to obtain tax exempt status in your state. Check your state taxing authorities' website for information.



*"The future belongs to
those who believe in the
beauty of their dreams"
~ Eleanor Roosevelt*



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Track Your Progress Checklist

- ☐ 1. Develop Your Vision and Mission and Values
- ☐ 2. Determine Your Name & Its Availability
- ☐ 3. Form Board of Directors & Establish Bylaws
- ☐ 4. Obtain Your EIN from the IRS
- ☐ 5. File Articles of Incorporation in Your State
- ☐ 6. Open a Business Bank Account
- ☐ 7. File the IRS Form 1023
- ☐ 8. File for Charitable Recognition in Your State
- ☐ 9. Wait...Wait...and Wait Some More
- ☐ 10. File for Tax-exempt Status in Your State



Your Next Step

I'm Kim Fisher, Chief Strategist here at Vision Catalyst, where my passion is helping others plan, launch, and grow successful nonprofit organizations both in the United States, as well as around the world.

I hope you found this checklist helpful for planning the essential next steps in bringing your nonprofit idea to life.

Have you considered asking an expert for advice? I'd love to help clarify any questions you have about these essential steps. Both the DIY method and those online legal sites can create unnecessary challenges.

Make **your very** next step a free Discovery Call with me today.

Book a Call

