

## **CHECKLIST: Starting a Nonprofit Corporation**

Depending on why you are starting a business, a nonprofit corporation may be the best business form. "Nonprofit" doesn't mean that the owners and other key personnel won't be paid well for their services. However, nonprofit status provides significant tax and other benefits. Starting a nonprofit is a bit different than starting a for-profit corporation, and special steps must be taken to get all the benefits available. The checklist below is a good way to track your progress in this endeavor.

- \_\_\_\_\_ Decide the exact purpose of the organization. This information is necessary in determining if a nonprofit is really the right type of business organization, for legal filings, and for informing potential funders and constituents. This purpose should be incorporated into a written mission statement.
  
- \_\_\_\_\_ Select a board of directors. The board can help translate the nonprofit's mission into a strategic plan and help with the concrete tasks in forming the organization.
  
- \_\_\_\_\_ File articles of incorporation with the state. This is the first step in forming the nonprofit entity. Once this is done, the nonprofit will be registered.
  
- \_\_\_\_\_ Obtain an EIN from the Internal Revenue Service. This is the organization's tax ID number. Although a nonprofit theoretically will be tax-exempt after filing for tax-exempt status, it will need this number. Also, some regular activities of a tax-exempt nonprofit may be taxable if they are too similar to activities of a commercial entity.
  
- \_\_\_\_\_ Request tax-exempt status from the IRS. Nonprofit corporations with charitable, educational, scientific, religious, or cultural purposes can have tax-exempt status under section 501(c)(3), or sometimes section 501(c)(4), of the Internal Revenue Code. To request tax-exempt status, file Form 1023 with the IRS. This application is an important legal document, so an attorney's assistance in completing it is a good idea. If the form is filed within fifteen months of incorporation, the tax-exempt status will be retroactive to the date the nonprofit was formed. Keep in mind that filing for tax-exempt status when a nonprofit is first formed is much simpler and less expensive in terms of time, costs for professional help, and effort than doing it later.
  
- \_\_\_\_\_ Request a state tax identification number, and state and local tax exemptions. The nonprofit will need a state tax ID in order to handle employment withholdings, sales

taxes, and more. Federal tax exempt status does not carry over to state and local tax. A nonprofit must separately file for these exemptions.

\_\_\_\_\_ File any necessary documentation to comply with state, county, and municipal charitable solicitation laws. In many states and local government units, charitable organizations that solicit funds must meet certain requirements, which generally include obtaining a permit or license, and filing annual reports and financial statements.

\_\_\_\_\_ Draft bylaws. Bylaws are a corporation's operating rules. They should be written and approved by the board early in the nonprofit's development. Bylaws are not easily changeable, and thus should not contain highly specific procedures. Those procedures are better incorporated in policies which comply with the broader guidelines set out in the bylaws.

\_\_\_\_\_ Create a strategic plan for the organization. The nonprofit's success depends on having a strong vision of its direction and what steps are needed to get there. The plan should include program and operational priorities for at least one year, and what staffing is necessary to implement the plan.

\_\_\_\_\_ Develop a budget and funding plan. A strategic plan can not be implemented without funding. The budget and funding plan should take into account fundraising, membership, and earned income.

\_\_\_\_\_ Develop accounting and record keeping systems. Aside from the organization's internal need for these systems, many states require nonprofits to be audited yearly once they reach a certain size. Accounting and record keeping will be scrutinized both in policy and in practice. The help of an accountant and an attorney experienced in nonprofit needs is desirable.

\_\_\_\_\_ Apply for a nonprofit mailing permit from the U.S. Postal Service. Many nonprofits' missions require extensive communications, and thus extensive mailing. A nonprofit mailing permit can save the organization a great deal of money every year.

\_\_\_\_\_ Obtain directors' and officers' insurance. Directors' and Officers' (D&O) insurance is advisable for nonprofits, even though most states provide extra personal liability shields for nonprofit board members. All it takes is one incident of willful misconduct by one or more board members, and the board may be personally liable for a great deal of money.