



# Starting a Nonprofit

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# Agenda

- Introductions
- General Considerations
- Actions with State of Maryland
- Actions with Federal Government (IRS)
- Managing a Nonprofit after Startup
- Additional Resources

# Introductions

- Large Number of Attendees, Limited Time for Introductions
  - Go Around the Room, Tell Us Two Things
    - Your Name
    - The Non-Profit That You Are Considering, or the words “Still Exploring”
    - Keep to 15 seconds per attendee (10 minutes for 40+ people)
- Introduction of SCORE Mentors

# Nonprofit v. Tax-Exempt

- Nonprofit = corporate structure.  
Defined by the state (in our case, Maryland)
- Tax-exempt = status regarding income taxes,  
Defined by the taxing government.  
(can be local, state or federal government)

# Hey Founders!

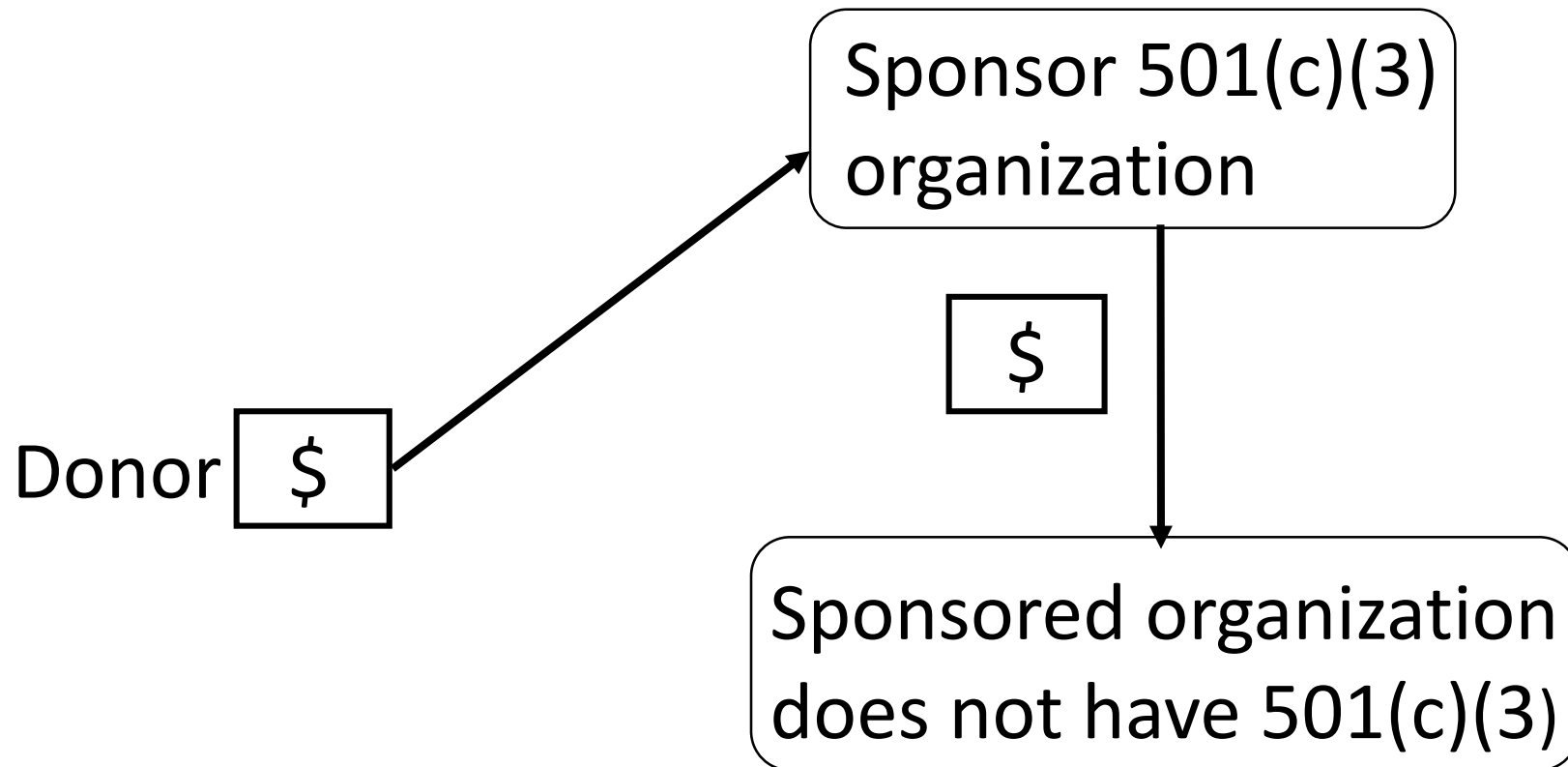
- A founder of a nonprofit does not own or control the organization
- A nonprofit is governed by a board of directors that makes all major policy decisions for the organization, including the hiring and evaluation of the CEO/Executive Director
- A founder can strongly influence the organization if they are elected by the board to be Chairman and/or President

# Other Options to Starting Your Own Nonprofit

Find other groups with a similar mission:

- Partnership
- Volunteering
- Fiscal sponsorship
- Project Management

# Fiscal Sponsorship



# Downsides of Fiscal Sponsorship

- Fiscal sponsors = legally responsible for activities of sponsored groups
- Sponsored groups may have to give up some control of their programming



# Getting Started

1. Recruit a core group of people

2. Create a mission statement

3. Pick an available name

<http://sdat.dat.maryland.gov/ucc-charter/Pages/CharterSearch/>

4. Raise enough money for set-up (~\$1,000)

5. Elect interim leaders

# Board of Directors

- 3+ people (ideally 5+)

Unrelated by business or family relationship

Variety/diversity: skills, resources, funds

Not looking for financial gain

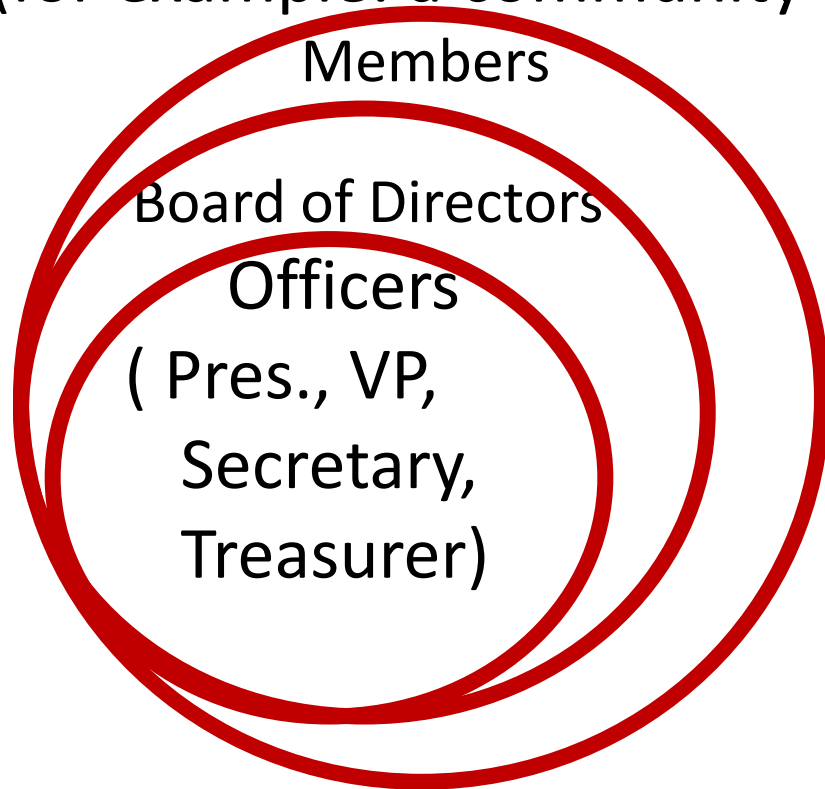
Reliable, work well with others

Passion for mission of organization

# Two Ways to Structure the Organization

Membership organization

(for example: a community association)



Board-only organization

(example: neighborhood tutoring program)



# Bylaws

- Governing rules of the organization
- Should be easy to understand
- Should be amended as necessary
- Will need Bylaws drafted in order to incorporate

# Bylaws: Provisions to Include

- Name, purpose(s), and principal office
- Membership: requirements and duties
- Board of directors: requirements and duties
- Officers: requirements and duties
- Quorum and voting
- Amendments to the bylaws
- Fiscal year
- Removal of members / directors
- Elections

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# Incorporation

- Corporation = distinct legal entity, able to do business in its own name
- Benefit = liability protection  
File with State Department of Assessments and Taxation (SDAT) to create legal entity authorized to conduct business in Maryland

Webpage: <http://sdat.dat.maryland.gov/ucc-charter/>

Click on “Business Entity” and “Get Forms”

- Filing fees are approximately \$220 (includes cost of expediting)
- If you intend to raise funds from the public, you must also register with Maryland’s Department of State (Charitable Organizations Division)

# Articles of Incorporation

- Sections to Include

Incorporator

Name

Purpose(s)

Powers

Resident Agent & Principal Office

Initial Board of Directors

Membership

Duration

Dissolution (part of boilerplate)



# Hold an Organizational Meeting

- Adopt articles of incorporation & bylaws
- Elect directors & officers
- Designate a bank
- Approve financial records
- Authorize payments
- Assign volunteer duties
- Establish committees
- Approve agreements, contracts, obligations
- Authorize application for Employer Identification Number (EIN)
- Authorize application for tax-exempt status

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# Background - 501(c) Types of Organizations

- 501(c)(1) – Corporations Organized Under Act of Congress (including Federal Credit Unions)
- 501(c)(2) – Title-holding Corporation for Exempt Organization[3]
- **501(c)(3) – Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals Organizations**
- 501(c)(4) – Civic Leagues, Social Welfare Organizations, and Local Associations of Employees
- 501(c)(5) – Labor, Agricultural and Horticultural Organizations
- 501(c)(6) – Business Leagues, Chambers of Commerce, Real Estate Boards, etc.
- 501(c)(7) – Social and Recreational Clubs
- . . .
- 501(c)(29) – Qualified Nonprofit Health Insurance Issuers

# 501(c)(3) Pro's and Con's

## **Pro's**

Contributions: tax deductible for donors

Eligibility for government and foundation grants

Also eligible for exemption from state income, sales & property tax

Low cost mailing & advertising rates

## **Con's**

Regulatory requirements

Paperwork, expense & time of Form 1023 (Obtaining tax-exempt)

Political activity limitations for 501(c)(3)

# Employer Identification Number = EIN

- Similar to a Social Security number for business entities -- must have in order to file for tax-exemption.
- Form SS-4

<https://sa2.www4.irs.gov/modiein/individual/index.jsp>

# Restrictions on 501(c)(3) Organizations

- Public benefit (cannot benefit one individual/family)
- Purposes must be "charitable" (*IRS definition next slide*)
- ALL activities must be in furtherance of charitable purposes
  - Political and Legislative Activity
    - 501(c)(3) nonprofits cannot directly support or oppose any candidates for office.
    - Other Political Activity (e.g., attempting to influence legislation):
      - cannot be a “substantial part” (more than 5%) of expenses and time.

# IRS 501(c)(3) “Charitable”

- Religious
- Educational
- Scientific
- Literary
- Testing for Public Safety
- Amateur Sports Competition
- Preventing Cruelty to Children / Animals

# Treasury Regulations

- Relief of poor & distressed or underprivileged
- Advancement of religion, education, or science
- Lessening burdens of government
- Promotion of social welfare by organizations designed to accomplish any of the above purposes or:
  - To lessen neighborhood tensions
  - To eliminate prejudice and discrimination
  - Defend human and civil rights secured by law, or
  - Combat community deterioration and juvenile delinquency



# How to Apply for 501(c)(3) Tax Exempt Status

- Form 1023 (long form): \$850
  - Longer (29 pages), requires more information
  - Attachments become public after filing: Articles of Inc., Bylaws, Conflict of Interest Policy, Projected Budget
  - Must write narrative description of past, present, and planned activities and events
- Form 1023-EZ: \$275
  - New since July 2014
  - Short, online form
  - Does not require many of the attachments
  - Limited to organizations that are eligible

# Who is Eligible to File Form 1023-EZ?

- Cannot be a church, school, hospital, or hospital service organization
- Financial requirements:
  - Annual gross receipts of \$50,000 or less for each of next three years
  - No annual gross receipts in excess of \$50,000 in each of the preceding three years
  - Total assets less than \$250,000
  - Obtain instructions and eligibility worksheet for other restrictions

# Keys to a Successful Filing

- Form 1023
  - Give yourself lots of time to complete the form
  - Read the instructions – see accompanying instruction forms
  - Only answer what is asked; provide detail, but not too much (most questions: one paragraph is enough; Section IV narrative should be two to three pages)
  - Label any attachments with EIN, name, and question being answered
  - Type it! Download forms from [www.irs.gov](http://www.irs.gov)
- Form 1023-EZ
  - Complete Form 1023-EZ Eligibility Worksheet
  - Read the instructions - see accompanying instruction forms
  - Prepare a Narrative (even though this will not need to be submitted)
  - Keep all documentation in a file that is easily accessible

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# Ongoing Compliance

- MD Form No. 1 – Personal Property Return
  - Personal property = any asset other than real estate
  - Must file return, even if the corporation does not own any personal property
  - [http://www.dat.state.md.us/SDAT%20Forms/pp1\\_2016.pdf](http://www.dat.state.md.us/SDAT%20Forms/pp1_2016.pdf)
  - Failure to file = forfeiture of corporation
  - Due each year on April 15<sup>th</sup>
  - The Organization is Exempt from Personal Property Taxes Under Section 7-202 of the Tax-Property Article of the Annotated Code of Maryland. But you still must file Form 1 each year.

# Ongoing Compliance (Cont.)

- IRS Form 990
  - Due 15th day of 5th month of fiscal year
- Several versions:
  - Form 990: long form for organizations with gross receipts of \$200K or assets of \$500K
  - Form 990-EZ: 2 pages, for organizations with gross receipts of <\$200K and assets <\$500K
  - Form 990-N (ePostcard): 8 question electronic form, for organizations with gross receipts <\$50K

# Ongoing Compliance (Cont.)

- Keep meeting minutes, corporate records, policies
- Register annually to receive charitable solicitations:  
<http://sos.maryland.gov/Charity/Pages/Registering-Charity.aspx>
- Sales tax, property tax exemption (Combined Registration – Comptroller):  
[http://forms.marylandtaxes.com/16\\_forms/cra.pdf](http://forms.marylandtaxes.com/16_forms/cra.pdf)

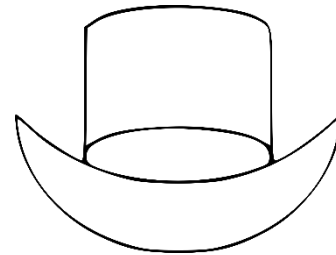
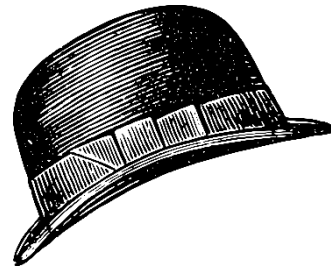
# Meeting Minutes

- Keep minutes of meetings:
  - Any format (not a transcript of the meeting)
  - Include: what happened at the meeting, what decisions were made, the vote on the matter, who was present, and if requested by someone opposing the decision, the name of anyone opposed
  - Signed and dated by the secretary, approved at the next meeting
  - Keep all meeting minutes together
- Especially keep minutes when:
  - Decisions are made that affect third parties (e.g. hiring employees, signing contracts)
  - Decisions are made that affect the rights and responsibilities of people in the organization



# Conflict of Interest Policy

We all wear different hats in our lives.



A conflict of interest policy makes sure board members are acting in best interest of organization, not in some other interest.

# Managing Conflicts of Interest in 4 Steps

1. Board member discloses conflict.
2. Board discusses whether the action is in the organization's best interest (without input from conflicted Board member).
3. Board takes a vote (without input from conflicted Board member).
4. Record the above steps taken in the meeting minutes.

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# Helpful Resources

## See Handout

- Government Websites (*Especially IRS & MD*)
- Centers
- Library Resources
- SCORE
- *And More*