



# How to Start a Nonprofit

## April 11, 2023

# AGENDA

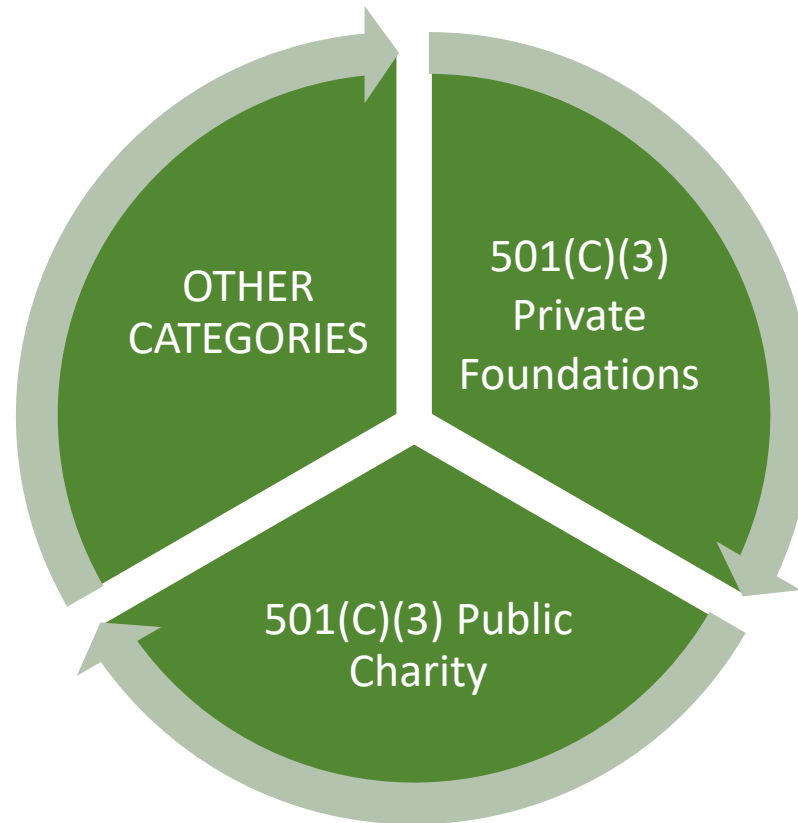
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- Is a Nonprofit right for you?
- Creating the Business
- Legal/Administration Steps
- Governance
- Begin Operations
- Initial Fundraising Plans
- Annual Reporting
- Questions

# IS A NONPROFIT RIGHT FOR YOU?

- Nonprofits are organizations that are not required to pay income tax on revenues related to their purpose.
- Usually incorporated by the state
- Governed by Board of Directors
- Recognized by IRS and subject to its rules
- Must file Annual Reports with the IRS that are available to the public

# MANY TYPES OF NONPROFITS



# PUBLIC CHARITIES 501(c)(3)

- Serve a charitable, religious, educational scientific, literary purpose
- Contributions exempt from donor's income taxes
- Receive funds from many sources
- May obtain income from activities that further charity's exempt purpose

# OTHER CONCERNS

- Cannot be operated for the benefit of private interests such as the Founder, Officers, Board Members and Members
- If organization is dissolved remaining assets must go to another 501(c)(3)
- Must pay income taxes on Unrelated Business income
- Must pay payroll taxes for employees

# QUESTION

- What's the difference between a NONPROFIT and a NOT-FOR-PROFIT?
  - It depends on who you are talking with:
    - For some NOTHING—It's the same thing
    - NONPROFITS that are not 501(c)(3)
    - Groups that are not formally organized that work for a common good

# CREATING THE BUSINESS

- Remember a Nonprofit is your tax status not your Business Plan.
- Business Plan
  - Just like any other business the new Nonprofit needs an initial plan to test viability
    - Problem Statement ( problem you intend to solve )
    - Community Need
      - » Local ? National? Both?
    - Community Support
      - » Will they support it with action and money?
    - Competition
      - » Local ? National ? Both?
    - Operational Plan
      - » How will it operate on a daily basis
    - Financial Plan
      - » Revenue based on projected fundraisings
      - » Expenses based on cost to operate
    - Board members & Volunteers
      - » Recruitment of both

# LEGAL/ADMINISTRATION STEPS

- Obtain Employer Identification Number (EIN) from IRS
- Incorporate with Secretary of State
- File 1023/1023EZ with the IRS to obtain a Determination Letter
- If you project less than \$50,000 gross receipts per year for first 3 years you can file a 1023EZ.
- All can/must be done online
- We can coach you through the EIN, incorporation and 1020EZ filings with screenshare

# EIN

- Needed for both State and 1023 filings
- Obtain online from IRS site at no cost
  - Need exact name you will be using
  - Receive number instantaneously
  - Just because you have a nonprofit tax ID number does not mean you are tax exempt

# PENNSYLVANIA INCORPORATION

- File as a Nonprofit Corporation with PA Bureau of Corporations & Charitable Organizations
- Can be done online or with paper filing
  - Online requires Keystone login
  - Filing Fee - \$125
  - Need to add IRS clauses to basic state form
  - May take several weeks to get approval
- Alternatives:
  - Online services advertise for \$350 to \$500
  - Attorney – much higher but personal preparation
- Need to register as a Charity with PA Dept. of State when donations approach \$25,000

# 1023EZ/1023

- Need to use worksheet (in 1023EZ instructions) to see if you qualify for 1023EZ.
- 1023EZ costs \$275 to file; approval takes a couple of months
- 1023 costs \$600 to file; approval takes longer
- 1023EZ requires description of mission/activities (250-character limit)
- 1023 requires much more information; e.g., bylaws
- Tax exempt determination letter mailed; eventually posted on IRS website
- Very important document, many will ask for a copy such as: foundations, contributors, etc.

# Governance

- Board Considerations

- Board Makeup

- Business Leaders, not Friends
    - Independent viewpoints
    - Committed to the mission, not padding their resume
    - Contributions:
      - 100% giving by the board. Many funders require it
      - Give or Get
    - Board Responsibility Sheet to prospective Board Members
      - So they are aware of what is expected, sign and date.
      - Minimum attendance, giving parameters, committee participation etc.
    - More than just a monthly meeting
      - First responsibility of the Board is FUNDRAISING!
      - Committees: fundraising audit, public relations, etc.

- Board Demographics

- Chairperson- Effective Leader to keep meetings focused
    - Secretary – Detail person who can keep in depth minutes
    - Treasurer – Financial background, Accountant
    - Member – Attorney, for legal guidance
    - Member(s)- Marketing/ Sales types for fundraising & PR

# Begin Operations

- **Open Bank account**
  - Check signers do not reconcile the bank account
  - Two signatures over specific dollar amount
- **Office Space if necessary**
- **Recruit Volunteers**
  - Just like Board, need committed volunteers
  - Volunteer responsibility sheet
- **Circulate Elevator Speech to all parties**
  - Consistent message coming from the organization
- **Decide on Financial Recordkeeping**
  - In house or outsourced
  - Must be done routinely
- **Begin Operating**
- **Always document results of the programs**
  - To prove the programs are doing what you intended
  - Show the community and funders results (outcomes)

# Initial Fundraising Plans

- Foundations etc. usually do not fund startup Nonprofits
  - They want a track record on outcomes before grants approved
- How much does your Financial Plan say you need Year One?
- Board members solicit their business connections
  - Personal meetings, letters, host a house party etc.
- Volunteers solicit their friends and associates
  - Calls, letters, e mails, etc. Matching gifts
  - Peer to peer Fundraising ( crowdfunding)
- Kickoff event?
  - Keep cost low, looking for exposure. Local media attention
- Goal is to not just raise funds but raise exposure in the community and build relationships

# ANNUAL REPORTING

- Report changes in directors to PA SOS annually—no charge
- File with PA charities—charge based on donations
- File 990N, 990EZ or 990 with IRS—no charge
  - Use 990N (Postcard) if under \$50,000 gross revenue-very simple
  - Other forms require much more information—financial, programmatic, individual compensation

# Finally

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## Questions??

To request mentoring: [www.score.org/buckscounty](http://www.score.org/buckscounty)

Later questions: [joseph.lutes@scorevolunteer.org](mailto:joseph.lutes@scorevolunteer.org)  
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