

Starting a Nonprofit: Essential Insights for Aspiring Founders



1

Meet Cheryl Smith

CEO | Dewlyn Nonprofit Services

Cheryl is a nationally recognized nonprofit consultant, trainer, and grant writer with over 25 years of nonprofit experience. Cheryl helps small organizations start, grow, fund, and sustain their mission.

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2

Workshop Logistics

Run-Time: 60
minutes

Q & A: 20
minutes

Presentation:
Available thru
SCORE

3

You're in the right place if...

1. You are considering starting a 501(c)(3) nonprofit public charity.
2. You want to increase your knowledge on this subject matter.

4

Our Agenda

1. Define a Nonprofit Public Charity
2. Nonprofit and For-Profit Business Models
3. IRS 501(c)(3) - 8 Purpose Areas
4. Public Charities: Pros and Cons

5

Thought for Today

“Every accomplishment starts with
a decision to try.”

Gail Devers



6

Disclaimer

I am not an attorney or CPA. I am a public charity expert.

This is an informational presentation based on my current understanding and is not inclusive of every possible business formation type available or their regulations, or IRS regulation concerning the 501(c)(3) tax status, nor is it intended to provide legal or accounting advice, or to address specific situations. You are encouraged to verify all information presented and consult with your own legal, tax, or professional expert for guidance. You may also visit your Secretary of State’s website for guidance or the IRS.gov website for guidance on exempt entities.

Thank you,
Cheryl Smith

7

I. What is a Nonprofit Public Charity?



8

What is a Nonprofit?

Nonprofit – legal entity status under state law.

Organized for a public or mutual benefit other than generating profit for its founders, board, or others.

Public Charity – a nonprofit that has received federal income tax exemption under the Internal Revenue Code 501(c)(3).



9

II. Nonprofit and For-Profit Business Models: Core Differences



10

What About Other Entity Types?

- 1. Benefit Corporations
- 2. Low Profit Limited Liability Companies
- 3. B-Corps
- 4. Social Enterprises



11

Considerations	For-Profit Small Business	Nonprofit Public Charity
Legal Focus?	Profit	
Can be owned?	Yes	
Can be sold?	Yes	
Legal right to profits?	Yes	
Income Tax Exemption?	No	
Taxed on Investments?	Yes	
Human Resources?	Paid staff	

12

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Can be sold?	Yes	No
Legal right to profits?	Yes	No
Income Tax Exemption?	No	*Yes
Taxed on Investments?	Yes	No
Human Resources?	Paid staff	Paid staff / unpaid volunteers

* Must be mission-aligned income.

13

III. Public Charities vs Private Foundations: Core Differences

14

According to the IRS

“Every organization that qualifies for tax exemption as an organization described in section 501(c)(3) is a private foundation unless it falls into one of the categories specifically excluded from the definition of that term.”

Example: [Public Charity](#)

Source: <https://www.irs.gov/charities-non-profits/charitable-organizations/private-foundations>

15

Considerations	Private Foundations	Public Charities
Public Support Required?	No.	
Gives Grants to Public Charities?	Yes.	
Receives Private Foundation Grants?	*No.	
Diverse Board Requirement?	No.	

* Private foundations can give grants to other private foundations, but this is highly unusual due to IRS tax burdens that are triggered when they do this.

16

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** Public charities can give grants to other public charities, but this is rare and is not required

17

IV. Types of Public Charities



18

Can *anyone* form a Public Charity?

Exempt purposes in section 501(c)(3) are:

1. Charitable
2. Religious
3. Educational
4. Scientific
5. Literary
6. Testing for public safety
7. Fostering national or international amateur sports competition
8. Preventing cruelty to children or animals



19

Charitable

“The generally accepted legal definition of ‘charitable’ includes relief of the poor, the distressed, or the underprivileged; advancement of [religion](#); advancement of [education](#) or [science](#); erecting or maintaining [public buildings](#), monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.”

Source: IRS.gov 1023ez Publication, 2023.



20

Religious

“To determine whether an organization meets the religious purposes test of section 501(c)(3), the IRS maintains two basic guidelines.

1. That the particular religious beliefs of the organization are truly and sincerely held. If there is a clear showing that the beliefs (or doctrines) are sincerely held by those professing them, the IRS will not question the religious nature of those beliefs.
2. That the practices and rituals associated with the organization's religious belief or creed are not illegal or contrary to clearly defined public policy.”

Source: IRS.gov 1023ez Publication, 2023.



21

Educational

The instruction or training of the individual for the purpose of improving or developing his or her capabilities, or the instruction of the public on subjects useful to the individual and beneficial to the community. An organization is not educational if its principal function is the mere presentation of unsupported opinion.

Examples include:

1. Public discussion forums, panels, lectures, or similar programs.
2. Museums, zoos, planetariums, symphony orchestras, and other similar organizations.

*Also, childcare programs, schools, universities.

Source: IRS.gov 1023ez Publication, 2023.



22

Literary

“A [publishing organization](#) must be operated exclusively for charitable purposes. These include religious or educational purposes. Often times, [educational](#) activities may also include [literary and scientific publishing](#).”

Source: <https://www.irs.gov/pub/irs-tege/eotopice88.pdf>.



23

Scientific

“Includes the [carrying on of scientific research in the public interest](#). Scientific research does not include activities of a type ordinarily carried on as an incident to commercial or industrial operations, as, for example, the ordinary testing or inspection of materials or products, or the designing or construction of equipment or buildings.”

Source: IRS.gov 1023ez Publication, 2023.



24

Testing for Public Safety

“The term ‘testing for public safety,’ as used in section 501(c)(3), includes the [testing of consumer products, such as electrical products, to determine whether they are safe for use by the general public.](#)”



Source: IRS.gov 1023ez Publication, 2023.

25

Fostering National or International Amateur Sports Competition

There are two types of amateur athletic organizations that can qualify for tax-exempt status.

1. An organization that fosters national or international amateur sports competition, but only if none of its activities involve providing athletic facilities or equipment.
2. The second type is a qualified amateur sports organization that can and does provide athletic facilities and equipment.

Source: IRS.gov 1023ez Publication, 2023.



26

Preventing Cruelty to Children or Animals

Prevention of cruelty to children or animals.

Examples of activities that may qualify this type of organization for exempt status are:

1. Preventing children from working in hazardous trades or occupations.
2. Promoting high standards of care for laboratory animals
3. Providing funds to pet owners to have their pets spayed or neutered to prevent over-breeding.



Source: IRS.gov 1023ez Publication, 2023.

27

V. Public Charities: Pros & Cons



28

501(c)(3) Public Charity: Advantages

- Separate and Perpetual Legal Existence
- Contribute to social good
- Federal and State tax exemption
- Eligibility for grants
- Donors can claim federal income tax deductions for donations to 501c3
- Free stuff & discounts



29

Free & Low-Cost Stuff

- **Email addresses:** Google for nonprofits
- **Websites:** 48in48.org
- **Design tools:** Canva.com
- **Donor management:** Boomerang.co
- **Fundraising:** Zeffy.com
- **Project management:** Notion.io
- **Search for grants:** Grantmakers.io
- **Tech products:** Techsoup.org
- **Supplies:** Good360.org
- **Donations:** TheShareWay.com
- **Banking Institutions** will often waive fees.
- **Legal Support:** Pro Bono Partnerships



30

501(c)(3) Public Charity: Disadvantages

- Paperwork & costs
- Restrictions on paying Board
- Restrictions upon dissolution
- Restrictions on Political Activities
- State & Federal oversight
 - Unrelated Business Income Tax
 - Private Benefit and Inurement
 - Annual filing
- You do not own the nonprofit



31

V. Resources for Starting a Public Charity



32

Resources for Domestic Nonprofits

Before starting a domestic public charity.	Contact the Appropriate Resource for help!
Choose a Business Structure	SBA.gov
Understand Exempt Organization Types	IRS.gov
View the Application for Public Charities	Pay.gov
Charitable Registration Guide	Harbor Compliance
Fiscal Sponsorship	FiscalSponsorshipDirectory.org
Understanding the Nonprofit Sector	National Council of Nonprofits, among others.

33

Resources for International Nonprofit

Before starting an international public charity.	Contact the Appropriate Resource for help!
Exempt Organization Types	IRS.gov
U.S. Treaties in Force	U.S. Department of State
U.S. Sanctions List	Office of Foreign Assets Control (OFAC)
International Professional Employer Organizations (PEO)	Seek Experts: Velocity Global, Papaya Global, and others.
International Employer of Record (EOR)	Seek Experts: Deel, Remote, Papaya Global, and others.
International NPO (Legal)	Legal experts. International Nonprofit Lawyer or Tax or Employment Attorney. Examples are Eide Bailly LLP, Nonprofit Law Center.

34

International Resources Continued

Resources

- **Office of Foreign Asset Control:** <https://ofac.treasury.gov/>
- **Find U.S. Tax Treaties:** <https://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z>

35

Ending Thought

Some people live their lives as though they are trying to get safely to death.
Yes, living involves risks, but that's what makes it so amazing.
Everyday, you are responsible for making 35,000 decisions.

My wish for you...
That you will "decide" to honor your truth, walk your path,
and do what you were meant to do.

~ Cheryl Smith ~

36

37



Cheryl Smith, CEO
Dewlyn Nonprofit Services
National Nonprofit Trainer & Coach

What I do each day...

1. Establish nonprofits organizations
2. Establish U.S. DOL Apprenticeship Programs
3. Help organizations become grant-ready
4. Grant proposal-writing
5. Strategic Planning
6. Group coaching and training



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38

Thank You!



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