

Starting a nonprofit organization

Beginner's Checklist -



Beginning note

This is a 5 step questionnaire cum checklist that should get you started with the process of forming a nonprofit organization in the United States.

The questions in each section are followed by a brief explanation of what it stands for and the rationale behind putting up the question to you.

We therefore advise you to carefully read the sections underneath the question, irrespective of your answers to them.

Once you are ready with an answer to these 5 questions – collate them at a place for reference and to take things forward from there

Let's get started

Step 1 of 5

Deciding the purpose

Select the best option that describes your situation

- I have not yet decided the purpose. I just want to start a nonprofit organization.
 - I have a specific issue that I want to address by starting a nonprofit organization.
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Side note

Having a well defined purpose is a **legal requirement** for starting nonprofit organization in most of the states of America.

A very few states allow organizations to mention general purposes in their organizing documents. Most of the states ask for 'specific purposes' for which the organization is being formed.

Internal Revenue Service does not mandate the need for a specific purpose but it still encourages organizations to establish and regularly review their purpose statement. An organization with a clearly articulated purpose statement is considered favorably by the IRS at the time of assessment for granting of tax exempt recognition to organizations.

Articulating the purpose

The purpose of organizations is articulated in the 'Mission Statement' of the organization.

[Recommended read - 3 step to writing mission statement.](#)

Conclusion

So if you have not yet decided the purpose or if you have decided the purpose but have not yet articulated the mission statement, you must do it as early as possible and definitely before you set out to prepare the organizing document for the organization.

Step 2 of 5

Step 2 of 5

Deciding the type/category of organization

The proposed organization would best be described as:

- A Public charitable organization
 - A mutual benefit organization
 - A Private foundation
 - A religious organization
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Why is it important to know this?

Classifying of organizations as 'public charity', 'mutual benefit' or a 'religious organization' is a legal requirement mandated by IRS as well as by most of the states of America.

Different statutory provisions are applicable to each of these three categories and hence it is very important to know the applicable classification before you venture out to start a nonprofit organization.

Not sure what they mean?

Public Charitable organization - An organization would be called a public charitable organization if its activities are expected to benefit the general public. Generally a public charitable organization accepts donations and funds from a large section of people either through membership subscription or from a variety of funding agencies. To be classified as a Public charitable organization the body must have an active or continuing program to raise funds and receive donations from a number of sources which could include the private organizations, funding agencies, the general public, or the agencies set up by the Government.

Mutual benefit organization - An organization that is established for the benefit of a closed group of members (say: professional associations, trade unions etc) are classified as mutual benefit. Generally mutual benefit organizations solicit funds and donations from a limited number of members who contribute a major portion of donations to the organization.

Private foundations -Private Foundations generally do not actively or directly engage in actual charitable work. Instead, they fund the organizations that work on the chosen causes. For most practical purposes, a private foundation is also classified as a mutual benefit organization.

Religious organization - Includes – churches, temples, mosques, synagogues and other such organizations.

Conclusion

While public charity and religious organizations are eligible for obtaining tax exempt recognition under section 501(c)(3) of the IRS code, mutual benefit organizations are not exempt from federal taxes. Private foundations have to meet additional criteria for being eligible for tax exemption.

Make sure you have understood what these specific categories stand for and that you are clear about the category into which your proposed nonprofit organization would fall.

Step 3 of 5

The proposed nonprofit organization:

- Is likely to apply for obtaining Tax exempt status with the federal and/or state authorities
- Will not likely apply for tax exemption at any stage

Side note:

A tax exempt organization is also called a 501(c) (3) tax exempt organization. (that's the IRS section under which exemption is granted.

What does tax exemption bring ?

A tax exempt organization receives two broad tax exemption benefits –

- 1) Exemption from payment of Federal Income Tax for the nonprofit organization.
- 2) Contributions made to them are tax deductible in the hands of the donor, hence acts as an incentive for donors.

In addition, some states provide certain state tax exemptions to 501(c)(3) organization. Another benefit is that some organizations may be exempt from certain employment taxes.

Should my organization seek it ?

If your organization is likely to solicit donations or earn any income whatsoever it should seek Federal tax exemption.

When is it not required ?

If an organization is likely to receive donations from only its members or it may not generate any income, it may not likely need tax exemption.

Step 4 of 5

I would like to :

- Start an 'unincorporated' nonprofit organization.
 - Start an 'incorporated' nonprofit organization.
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What is the difference between the two?

Very simply put,

An Unincorporated organization does not register itself with the state authorities and is not liable to comply with the reporting requirements of the state.

An Incorporated nonprofit organization is formally registered with the state authorities and is generally required to submit annual report in prescribed format to the state authorities. An incorporated organization enjoys greater credibility with funding agencies because of transparency in reporting.

Which one is right for me?

You should consider starting an Incorporated nonprofit organization if -

- a) The expected annual budget for the organization in years to come exceeds USD20000. (Just a thumb rule)
- b) The organization is expected to continue its activities in the foreseeable future.

You might decide to start an unincorporated non profit organization if -

- a) This is a temporary project that you wish to undertake
- b) The annual budget is less than USD 20,000. (Again a thumb rule)

Additional reading

[Starting an unincorporated organization](#)

[Should you incorporate your nonprofit ?](#)

Step 5 of 5

My organization will:

- have membership provision
 - not have membership provision.
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A word about ‘nonprofit organization structure’

A typical non profit organization has a board which looks after all the governance. The board members are either elected by outgoing members or by the members of the organization (if the organization allows for membership).

Accordingly there are two broad classes of membership -

- 1) Members with voting rights (to elect the board)
- 2) Members without voting rights.

Membership provision - Should I have one in my nonprofit organization?

Membership provision with voting rights - should be allowed if you are not very keen on having the decision power under your control and you want things to be decided by what majority wants.

Membership provision without voting rights - should be considered if you cater to a large section of people (say - you work with students in school) but the decision power and voting rights vests with the board of directors.

No - member - An organization can opt for not allowing membership if it does not see the need for involving too many people.

Thank you for going through the tour.

Getting down to the act!

To summarize, before you begin with the process for starting a nonprofit organization, you need to be clear on these 4 issues -

- 1) The Purpose - articulated in the form of Mission statement.
- 2) Whether or not you want to be Tax exempt organization?
- 3) Whether you want to have members in your organization and if so, will they have voting rights to elect the board?
- 4) Whether you want to incorporate or a not?

These 4 decisions should not be taken in a jiffy, just as we did now but should be thought over. If you want a soft copy of the questionnaire that you just went through just fill in your email address below and we will send a copy of the same for you to deliberate on.

Thanks for taking the time to equip yourself with the basics

If you have decided the answers to these 5 questions you have half way through the process. Its time to move on!

[Click here to continue with the start up process.](#)