

# 501(c)(3) Nonprofit Status

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**What is it,  
Do We Need It, and  
How Do We Get It?**

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# Disclaimer

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- The presenters are not attorneys or IRS representatives, so the general information provided in this presentation should not be construed as legal advice for your specific organization

# What's a 501(c)(3), anyway?

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- Generally speaking, it is a non-profit organization
- Technically speaking, it is a section of the Internal Revenue Code of 1986
  - Defines the requirements for tax-exempt organizations
  - Applies to particular types of organizations
- FRC teams qualify as publicly supported non-profit educational organizations

# Do You Need One?

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- Teams sponsored by a school or church, or other IRS-recognized nonprofit organization don't need one
  - Sponsoring organization already is one
  - Their status applies to subsidiary organizations
- All other teams should get one
  - Makes donations tax-deductible
  - Makes team member travel expenses tax-deductible regardless of how paid

# How Do You Get It?

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- Lots of work, but not difficult
- All slides and attachment available at

<http://moe365.org/moeu.php>

# Basic Steps

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- Choose your board of directors and/or officers
- Write bylaws
- File articles of incorporation with the state
- Develop a budget
- Establish a system for record keeping and accounting
- Obtain a taxpayer identification number from the IRS
- Request recognition of tax-exempt status from the IRS
- Other state requirements

# Choose Your Board of Directors and Officers

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- Needed for incorporation
- No set standard
- Basic officers
  - President
  - Secretary/Treasurer
- May also include
  - Vice-President
  - Other board members, including student representative
  - Committee heads

# Write By-Laws

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- Needed for incorporation
- See sample online
- Basic sections:
  - Name of organization
  - Purpose
  - Officers
  - Financial organization
  - Indemnification of officers and directors
  - Amendments
  - Dissolution of corporation - important



# File Articles of Incorporation With Your State

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- Varies by state
  - Can also be called Business Registration or Charter
- Information on state website
  - Usually [www.statename.gov](http://www.statename.gov) or [www.abbreviation.gov](http://www.abbreviation.gov)
- Some states available on attachment
- Specify non-profit status
- Legal help useful but not required
  - Check with state bar association for *pro bono* help
- Need corporate name, address (not a P.O. box)
- Usually \$25-\$90

# Obtain Tax ID Number

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- Also called Employee Identification Number
- Used by donors for tax deductions
- Obtained from the IRS
- Form SS-4 available online

<http://www.irs.gov/Charities-&-Non-Profits/Application-for-Recognition-of-Exemption>

- No cost

# Apply for Recognition of Exemption

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- File IRS Form 1023 with \$400 or \$850\* fee
  - <http://www.irs.gov/Charities-&-Non-Profits/Application-for-Recognition-of-Exemption>
  - Instructions, FAQs also available at same page
- See our completed form online
- Several attachments needed
  - By-laws
  - Activities of the Organization
  - Three year financial plan
  - Fundraising program
  - Certificate of incorporation - (see instructions)
  - Board of directors and officers
- Timing - usually 2-4 months

\*Note: Groups with annual gross receipts ≤ \$10,000 during preceding 4 years have a \$400 fee.

Groups with annual gross receipts > \$10,000 during preceding 4 years have a \$850 fee.

# Top Ten Reasons for Delays in Processing Applications

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10. Is there enough financial data?
9. In what month does the annual accounting period end?  
Does the fiscal year ending date stated on the application agree with the fiscal year ending date stated in the by-laws, on the financial statements, etc.?
8. Did you provide the required information on the principal officers and board of directors?
7. Did you provide enough information on the activities to show us how your exempt purpose will be achieved?  
Please don't restate your purpose!
6. Did you complete all required schedules?

# Top Ten Reasons for Delays in Processing Applications

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5. Did you complete all required pages?
4. Did an authorized individual sign the Form 1023.
3. If you have adopted by-laws, did you submit a copy?
2. Did you attach a complete copy of your organizing document and all amendments?

The **Number 1** reason for delays in processing exempt organization applications is . . .

**INCORRECT OR NO USER FEE!**

<http://www.irs.gov/Charities-&-Non-Profits/Top-Ten-Reasons-for-Delays-in-Processing-Exempt-Organization-Applications>

# Other State Requirements

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- Register as charity with state - not always required
- Request sales tax exemption
  - No sales tax on corporation purchases
  - Varies GREATLY by state

# Hooray! You've Got Your Exemption Letter. What's Next?

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- If your treasurer is not an accountant
  - Recruit a student whose parent is an accountant
  - Find an accountant who needs *pro bono* work to become a CPA
  - Send a young, single mentor to hang out at bars frequented by people who work at accounting firms
  - Camp out in the lobby of an accounting firm until they agree to file your tax forms
- Follow the example of others who have gone before you

# Keeping The Books

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- Start as small as your organization
- Grow your system as your team grows
- When to buy a software package?
  - When you start to outgrow your home-grown system
  - When you have the money
- What package should you buy?
  - Whatever is available?
  - Whatever makes sense to you
  - Peachtree Software makes an affordable non-profit package



# Reporting to Your BoD

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- Every meeting
  - Statement of income and expenditures
  - Current period and YTD
  - Budgeted amounts for current period and YTD
- Last meeting of fiscal year
  - Proposed budget for next year
- First meeting of fiscal year
  - Final statements
  - Arrange for an audit of the books

# Filing Annual Information Return

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- Internal Revenue Service requirement
- IRS Form 990 or 990-EZ, and Schedule A
- Forms and instructions online separately
  - [www.irs.gov](http://www.irs.gov)
- Due 3 months and 15 days after end of fiscal year
- Automatic 3 month extension available
  - Use Form 8868
- See Publication 4221 for recordkeeping requirements

# Annual State Franchise Tax

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- Cost and filing requirements vary with state
- Delaware has flat \$89 fee for nonprofits
- Online filing may be available
- Don't ignore this
  - Penalties for failure to file

# Corporate Donors

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- Often ask for Your Tax ID Number (EIN)
  - Form W-9 – Request for taxpayer identification number and certification – can be used
  - Some ask for Tax ID before contributing
  - Keep a signed version handy
- Send an acknowledgement letter
  - Required if \$250 or more donated
  - Must contain:
    - Amount of each cash contribution
    - Description (but not value) of any non-cash contributions
    - Whether you provided any goods or services in return, and if so, the value of the goods and/or services provided

# Individual Donors

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- Don't need a W-9
- Send an acknowledgement letter
  - Required if \$250 or more donated
  - Must contain:
    - Amount of each cash contribution
    - Description (but not value) of any non-cash contributions
    - Whether you provided any goods or services in return, and if so, the value of the goods and/or services provided
  - Nice to include your Tax ID number
  - Should be timely
  - Must be by January 31 of year following contribution

# All Donors

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- Get students to write a thank you letter
  - Separate from and in addition to the government mandated acknowledgement letter
  - Describe their experiences this year
  - Make note of team accomplishments
  - Thank them for their contributions
- Include a team picture for the larger contributors

# Online Help Available

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- [www.moe365.org/moeu.php](http://www.moe365.org/moeu.php)
  - This presentation
  - Attachments
  - Examples
- [www.irs.gov](http://www.irs.gov)
  - Forms and instructions
- <http://www.irs.gov/Charities-&-Non-Profits/Application-for-Recognition-of-Exemption>
  - Description of the process
  - Links to needed forms
- <http://www.irs.gov/Charities-&-Non-Profits/Form-990-Resources-and-Tools-for-Exempt-Organizations>
  - Useful resources and tools

# Questions?

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- Note: This presentation is from 2006 and may contain outdated information, please review the following sites before starting the process of attaining 501(c)3 Nonprofit Status:
  - <http://www.irs.gov/> - For all forms and instructions
  - [www.statelocalgov.net](http://www.statelocalgov.net) - For each state's instructions