

# Ten Steps in Forming a Nonprofit Organization

There are ten basic formal steps in forming a 501(c)(3) nonprofit organization in North Carolina.

1. Clarify your **mission, vision, and goals**.
2. Recruit an initial **board of directors**. Identify people who are committed to the mission, and who will formally own and direct the organization.
3. Define your purpose, and create your **bylaws**. You may want to review the bylaws of several other organizations to get an idea of what you would like yours to look like.
4. Hold an **initial board meeting**. Approve bylaws and elect officers, if you will have them.
5. Get a **Tax Identification Number** (also called an Employer Identification Number) from the IRS by filing the one-page Form SS-4. (Available online at [www.irs.gov](http://www.irs.gov)). The form is easy, and may be mailed, faxed, or even phoned in—you can get your tax ID number the same day.

**6. Incorporate as a nonprofit corporation** in NC by registering with the Secretary of State. You need to file a standard form called your Articles of Incorporation, with a fee of \$60. It takes around a month to get back your incorporation papers. The state also provides a publication called Incorporating Your Nonprofit in North Carolina. Guidelines and incorporation forms are online at [www.secretary.state.nc.us/Corporations](http://www.secretary.state.nc.us/Corporations).

**7. Apply for tax exemption as a 501(c)(3) nonprofit organization.** You need this before you can get grants or tax-deductible contributions (unless you have a fiscal agent). Call the IRS (800-829-3676 or 800-829-1040) or go online ([www.irs.gov](http://www.irs.gov)) and request the following forms: Form 1023, Form 8718, and Publication 557. This whole process takes from 4 to 12 months. Many organizations have a lawyer or CPA look over their bylaws and IRS application. Save the letter that you finally get from the IRS; you'll submit it along with every grant proposal. The application fee is \$150 if your annual budget will average under \$10,000, or \$500 if your budget is over \$10,000.



## 501(c)(3): What's it mean?

"501(c)(3)" is a reference to the Internal Revenue Service Code that describes tax-exempt organizations. Most nonprofit organizations have 501(c)(3) status. Other organizations, like foundations, are tax-exempt but under a different code.

501(c)(3) status means that you exist for a charitable purpose, not to earn money for shareholders. Therefore you are tax-exempt as an organization (although your staff still have to pay their income taxes!)

**8. Regarding employees:** If you will have paid employees, get a **State Withholding Identification Number** from the NC Department of Revenue (919-733-4626) or download the forms from [www.dor.state.nc.us](http://www.dor.state.nc.us). File with the **Employment Securities Commission** ([www.ncesc.com](http://www.ncesc.com)) for unemployment taxes when you have at least 4 full or part-time employees working a total of 20 weeks in one calendar year. Follow the law for hiring practices, including collecting the IRS **W-4 Form** (withholding information) and **INS I-9 Form** (eligible to work in the U.S.) for each employee.

**9. Apply for a Charitable Solicitation License** through the NC Secretary of State if you will be raising \$25,000 or more through grants and donations. Fees are on a sliding scale

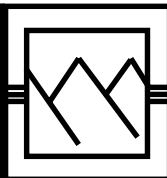
and must be renewed annually. For more information, visit [www.secstate.state.nc.us/csl](http://www.secstate.state.nc.us/csl) or call (919) 807-2214 to request an application.

**10. For further tax exemption:** Once you receive tax-exempt status from the IRS, you can apply to the NC Department of Revenue for exemption from **state sales tax**. You'll receive a state tax exempt letter. In North Carolina, you have to pay sales tax, keep receipts and records, and then request the state to reimburse the tax that your organization paid. Forms and information at [www.dor.state.nc.us](http://www.dor.state.nc.us). You may also apply for a local **property tax exemption** by contacting your local County Tax Office. You still have to file a property listing by Jan. 31 even if property tax exemption is granted.

## CENTER FOR PARTICIPATORY CHANGE

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The logo for the Center for Participatory Change, featuring the letters 'CPC' in a bold, white, sans-serif font on a black background.The full name of the organization, 'CENTER FOR PARTICIPATORY CHANGE', in a white, sans-serif font on a black background.

The Center for Participatory Change helps people recognize their own power, work together and transform their communities. We work hand-in-hand with people from outside established power structures, as they form grassroots groups that create and sustain lasting social change. We provide this grassroots support through four programs:

- ◆ GRASSROOTS ORGANIZING
- ◆ CAPACITY BUILDING
- ◆ BUILDING COALITIONS
- ◆ GRANTMAKING

For more information, contact:

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The text 'CAPACITY BUILDING PROGRAM' in a white, sans-serif font on a black background.

## Is becoming a nonprofit right for you?

### Know your options

Incorporating as a 501(c)(3) organization takes time and money. There are several less formal options that may also work for you:

**Remain unincorporated.** Many community efforts have no formal status at all. If you don't have staff and don't need to raise much money, this can be the best option.

**Be a program of another organization.** If you just want to run a project, without creating a new organization, find an existing organization that will take you on.

**Use another nonprofit as a fiscal sponsor:** You operate independently as an organization, but grants are channeled through an existing 501(c)(3) organization that agrees to act as your 'fiscal sponsor'. This can save a lot of time and paperwork.

### Benefits

Receiving tax-exempt status gives you two important benefits:

- 1) Your organization will qualify for many foundation grants that are only awarded to 501(c)(3) organizations.
- 2) Donations to your organization will be tax-deductible for the donors.

### Responsibilities

There's a lot of paperwork involved in becoming a 501(c)(3) organization. The inside of this brochure lists the basic steps in getting started. Once established, you will have to file an annual IRS report called a *Form 990*.

A nonprofit must keep good records, especially for financial accounts. And be sure your Board of Directors has the training they need to be responsible for the organization.