

# GUIDELINES FOR NEW NONPROFITS

*This document was prepared as a guideline for persons considering the formation of a tax-exempt nonprofit organization.*

	PROJECT DATES	
	START	COMPLETE
<p><b>DETERMINE PURPOSE AND STRUCTURE</b></p> <p>Hold initial planning meeting (possibly informal) to establish consensus on the purpose and the form of the proposed organization. Delegate responsibilities for drafting bylaws and articles of incorporation, filing for incorporation and tax-exempt status, developing a program plan and budget, and planning for fundraising.</p>		
<p><b>FORM INITIAL BOARD OF DIRECTORS</b></p> <p>A board of directors requires at least three members for incorporation.</p>		
<p><b>FILE ARTICLES OF INCORPORATION WITH THE STATE OF TEXAS</b></p> <p>A <b>\$25.00</b> filing fee is required. Additional \$25.00 to expedite. Most funding sources will work only with organizations incorporated as nonprofit who have also obtained their tax exempt status from the IRS (501(c)(3)). Articles of incorporation (and by-laws) should be reviewed by a lawyer. If you have any additional questions, please call (512) 463-5555.</p>		
<p><b>DRAFT BY-LAWS</b></p> <p>Since these make up the "rule-book" for running an organization, it is helpful to draft them during the early stages of development. In addition, by-laws and articles of incorporation <u>must</u> accompany the IRS application for tax exemption.</p>		
<p><b>DETERMINE PROGRAM PLAN</b></p> <p>Develop written goals and objectives, a work plan, and a service description for at least a one year period. A two-year prospective budget is required by the IRS for the tax exemption application.</p>		
<p><b>DRAFT A FUNDRAISING PLAN</b></p> <p>Determine appropriate sources from which to seek funding, outline an approach to donors, and develop a fundraising timetable.</p>		
<p><b>HOLD FORMAL ORGANIZATION MEETING</b></p> <p>This should be an official meeting of the board of directors to accept the articles of incorporation, adopt the by-laws, elect officers, authorize tax-exemption application, authorize any financial transactions, and continue program planning.</p>		
<p><b>ESTABLISH A RECORD KEEPING SYSTEM</b></p> <p>The record keeping system will be used for preserving corporate documents, reports, and all minutes of the board meetings. These are the official records of the organization and <u>must be maintained throughout the life of the organization.</u></p>		
<p><b>FILE FOR EMPLOYER IDENTIFICATION NUMBER (FORM #SS-4)</b></p> <p>Mail or FAX a completed SS-4 form for income tax withholding to the IRS in Austin, Texas. The IRS will issue the organization a federal I.D. number.</p>		
<p><b>FILE APPLICATION FORM 1023 WITH IRS</b></p> <p>File Form 1023 to obtain 501(c)(3) tax exemption from corporate income taxes. A <b>\$500</b> filing fee is required. Call the IRS toll free at 1-877-829-5500 for questions. You may wish to have a knowledgeable professional (attorney or accountant) assist in drafting. Forms can be obtained by visiting the IRS website at: <a href="http://www.irs.gov/tax_edu">www.irs.gov/tax_edu</a>.</p>		



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<p><b>ESTABLISH BOOK KEEPING/ACCOUNTING SYSTEM</b></p> <p>A simple system will be needed until the organization begins to receive major grants and to conduct program activities. However, anticipate the organization's financial record keeping needs for these later stages of development and start with an accounting system and chart of accounts that can meet these needs. Pay attention to tax reporting requirements.</p>		
<p><b>APPLY FOR LICENSES</b></p> <p>Check with local officials in the municipality in which the organization will be raising funds to determine whether a solicitation license is necessary. The organization should also determine whether other program licenses are need by checking with local/state agencies.</p>		
<p><b>DEVELOP AND SUBMIT FUND RAISING PROPOSALS</b></p> <p>Government grants may be solicited after incorporation and Form 1023 have been filed. Solicitation of private foundation grants will not be very successful before the IRS formally recognizes the organization. A fiscal agent agreement with an existing tax exempt organization may be necessary prior to receiving 501(c)(3) status from the IRS.</p>		
<p><b>APPLY FOR STATE SALES AND FRANCHISE TAX EXEMPTION</b></p> <p>Forms and information are obtained from the Office of the State Comptroller. Exemption is automatic once IRS approves 1023 application, but it must be requested in writing.</p>		
<p><b>REGISTER WITH STATE UNEMPLOYMENT INSURANCE PROGRAM</b></p> <p>Register with the Texas Employment Commission <u>after</u> the organization begins operation. Nonprofit organizations with three or less employees do not pay this tax.</p>		
<p><b>APPLY FOR PROPERTY TAX EXEMPTION</b></p> <p>Apply with local Tax Assessor's Office, if appropriate, but very few such exemptions are granted.</p>		
<p><b>OBTAIN INSURANCE COVERAGE CONSULT WITH INDEPENDENT AGENT IF POSSIBLE</b></p> <p>General liability and directors and officers liability insurance should be considered. Verify minimum amount of general liability coverage required for organization to be covered by Texas Charitable Immunity statute.</p>		
<p><b>APPLY FOR NONPROFIT BULK MAIL PERMIT</b></p> <p>Apply with the U. S. Post Office in your area. Such a permit is beneficial if the organization plans mailings of over 200 pieces of material at any given time.</p>		
<p><b>DEVELOP PERSONNEL POLICIES</b></p> <p>This should be done within the first year of operation. And is best done <u>before</u> an organization hires any staff persons.</p>		
<p><b>BEGIN PROGRAM ACTIVITIES</b></p> <p>Staff may be hired, space rented, and program activities started any time, depending on the ability to implement program plans and on receipts of a significant portion of the proposed funding. <b>The board of directors must determine when the program should actually begin functioning.</b></p>		

*Depending on program type and funding sources, further registration, reporting, or licensing may be required.*

(Adapted by The Management Assistance Program, United Way of Greater Houston from a checklist developed by Accounting Aid Society of Greater Detroit.)