

## Starting a Nonprofit Organization

Starting a nonprofit organization first begins with a mission. A mission is simply a clear statement of the scope and objectives of your nonprofit organization. Why does your nonprofit entity need to exist? Who will it serve? What will it actually do? Where will you operate? The answers to these questions should help you to formulate a clear mission statement.

Once you have the mission of your organization, you can move onto the technical and legal aspects of forming the organization. Legally, a nonprofit organization is one that does not declare a profit and instead utilizes all revenue available after normal operating expenses in service to the public interest.

Thus, you must first determine if your mission requires establishing a nonprofit organization. If you intend on raising funds in the form of tax deductible contributions, the organization must serve some charitable, religious, educational, scientific or literary purpose beneficial to the public interest. This will allow the organization to seek tax exempt status from the Internal Revenue Service for being deemed a 501(c)(3) charitable organization.

"501(c)(3)" refers to the section of the US Tax Code that deals with tax exempt organizations. When a nonprofit organization is given tax-exempt status, it is exempt from paying federal corporate income tax. While these types of organizations also are often exempt from paying state and local sales tax, property tax and taxes on other assets, this is not always the case as states have different rules. Tax exempt nonprofits can also benefit from lower postal rates.

To obtain tax-exempt status from the IRS, the nonprofit will need to complete and file Form 1023 with the IRS. This is the form that the IRS reviews to determine whether to recognize your organization as exempt from federal income tax. Upon approval, the IRS will issue a determination letter that provides written assurance about the organization's tax-exempt status and its qualification to receive tax-deductible charitable contributions.

Nonprofits can be unincorporated or incorporated organizations. An unincorporated nonprofit is somewhat rare for while it can be given federal tax-exempt status or the designation of being an organization as defined by 501(c)(3) by the IRS, it does not enjoy the legal protection a corporation provides. These legal protections for nonprofit corporations include:

1. Distinct legal entity - An incorporated organization is a separate legal entity distinct from its members. Generally it can sue and be sued in its own capacity. It provides a formal legal status for those associated with it.
2. Limited Liability - Members of an incorporated organization are not normally personally liable for its debts and obligations. Directors may, however, incur personal liability in certain circumstances.

3. Perpetual Existence - An incorporated organization may go on forever. If the members change, the incorporated body continues to exist and will do so until the organization is dissolved according to state law.

4. Ownership of Property - An incorporated organization can own property in its own name. If the members of the organization change, the legal title to the property stays with the incorporated entity.

5. Government Aid - Some government agencies have programs to assist nonprofit organizations. They often require, however, that the organizations they fund be incorporated.

When a nonprofit organization is incorporated, it shares many traits with for-profit corporations except that there are no shareholders. In Indiana, a nonprofit may incorporate under Indiana law as a nonprofit corporation pursuant to Indiana Code §23-17 et seq. Incorporating as a nonprofit is very similar to incorporating as a for-profit. Each nonprofit corporation must file articles of incorporation specifically stating the type of corporation (i.e., public benefit, mutual benefit or religious). Each must establish by-laws, maintain a board of directors and have annual meetings.

Once a nonprofit organization is formed and has its tax-exempt status, it will run as any other business runs. The nonprofit can offer products and services, hire staff, raise revenue, market itself, and it must be concerned about customer satisfaction, particularly by those who contribute donations. A nonprofit is a business that must serve the public interest and it will succeed or fail as any business will, depending on how well it is operated.

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