

# BEST PRACTICES

---



## Best Practices #061:

### Becoming a Non-Profit Heading: Chapter Structure

#### **Reasons to become a non-profit:**

- Donations-Becoming a non-profit allows chapters to accept charitable donations. Donors can give money tax-free.
- Reduced postage rates.
- Reduced rent or free facilities in some city or county spaces-Some areas give reduced or free rent to non-profits.

#### **Steps to becoming a 501(c)3 Non-Profit**

1. Formulate a Mission Statement.
2. Form a Board of Directors.
3. File Articles of Incorporation with the appropriate government entity. Information can be given by the state's Attorney General or Secretary of State.
4. Draft bylaws. Develop a strategic plan and a business plan.
5. Develop a budget and an account keeping system. States require different things be kept in the official files-be sure to check with the appropriate state agency to be certain you are saving the correct materials. If you are forming a new organization, you may be required to submit projected budgets as well as the budget for the current fiscal year.
6. Develop a record-keeping system.
7. File for 501(c)3 status, using [Form 8718](#) and [Form 1023](#). You will need to include supporting documents with these forms.
8. File for a Federal Employee Identification Number. File [Form SS-4](#) when applying for one.
9. File for state tax exemption. The State's department of revenue is usually helpful in this process.
10. File for local tax exemption. The local municipal or county clerk is usually helpful in this process.
11. Fulfill charitable solicitation requirements. This can include applying for a license and producing an annual report. Be sure to check with the appropriate state agencies.

-Source: <http://www.ncstac.org/content/materials/501c3.pdf>

### **Additional Information about 501(c)3 Status:**

- Different states require different information from non-profits to gain and retain 501(c)3 status. These are only guidelines.
- If you plan to operate in other states, you may need to acquire a Certificate of Authority from those states. The Secretary of State should be able to help with this process.
- Cities and Counties may require additional permits, or permits for different activities your group hosts. Consult the proper local government entity for these.
- According to IRS Publication 4220, an organization waiting approval of 501(c)3 status may operate as a non-profit while the application is pending. Donors are not assured that the application will be approved; however if the application is approved those donations do qualify as tax-deductable.
- To open a bank account as a 501(c)3 non-profit organization, you must have an employer ID number.
- If a third party will be representing your organization, you should give this person Power of Attorney, by filling out Form 2848.

### **Have you...**

- ✓ Applied for recognition of exemption, Form 8718?
- ✓ Filled out Form 1023?
- ✓ Filed form SS-4 and applied for an Employer Identification Number?

### **501(c)6 Option**

“Section 501(c)(6) of the Internal Revenue Code provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual,” according to the IRS website.

(<http://www.irs.gov/charities/nonprofits/article/0,,id=96107,00.html> )

To apply for this status, acquire an EIN, fill out a SS-4 form, a 1024, and provide all required financial information. For a new organization, this includes financial statements for the current year and proposed budgets for the next two years.

## 501(c)7 Option

“A social club must be organized for pleasure, recreation, and other similar purposes. A club will not be recognized as tax exempt if its charter, by laws, or other governing instrument, or any written policy statement provides for discrimination against any person based on race, color, or religion. A club may, however, in good faith limit its membership to members of a particular religion in order to further the teachings or principles of that religion and not to exclude individuals of a particular race or color,” according to the IRS website.

(<http://www.irs.gov/charities/nonprofits/article/0,,id=226376,00.html>)

Additional information on this status can be found [here](#). Social clubs are required to file annual returns, as well as sometimes having to file unrelated business income tax returns and pay employment taxes. Donations are not tax deductible.

**Additional Information:** There are many IRS publications and resources available to help an organization become a 501(c)3. Resources and forms the AAW found helpful are listed below.

- [Tax Information for Charities and Non-Profits.](#)
- [IRS Publication 557](#)
- [IRS Publication 4220](#)
- [IRS Mini Courses about Tax Exempt Status](#)
- [Tax Information for Charitable Organizations](#)
- [IRS Form 1023](#)
- [IRS Form 8718](#)
- [Form SS-4](#)