

Nonprofit Organizations

What is a 501(c)(3)?

- A 501(c)(3) is a nonprofit organization that is exempt from federal income tax and possibly state property and sales/use taxes.
- Nonprofit organizations are either public charities or private foundations. The Internal Revenue Service presumes that all 501(c)(3) organizations are private foundations until each organization demonstrates that they qualify as a public charity.
- Public charities typically are supported by broad public financial support.
- Private foundations are typically used when there are a small number of donors or the income to the organization is derived from investment income.
- In addition, contributions made to such nonprofit organizations by individuals and other entities are deductible from their taxable income.

Why apply for a 501(c)(3)?

- Benefits of having 501(c)(3) status:
 - ✓ Exemption from federal income tax and eligibility to receive tax-deductible charitable contributions.
 - ✓ Likely increase in donations, as individuals and corporate donors can possibly have their donations be tax deductible.
 - ✓ In some cases the organizations can be exempt from state and local property, sales and use, and franchise taxes.
 - ✓ Reduced postal rates
 - ✓ Eligibility for many state and/or federal grants

Who is eligible for 501(c)(3)?

- A nonprofit organization must be “organized” and “operated” exclusively for one or more “exempt purposes”
- “Organized” means set up as either a corporation, trust, or unincorporated association under applicable state law.
- “Operated” looks at the actual activities of the organization. It is required that the organization be operated exclusively for charitable purposes.
- “Exempt Purposes” under Section 501(c)(3), the Internal Revenue Code lists the following exempt purposes: charitable, educational, religious, which are the most common types, as well scientific, literary, fostering national or international sports competition, preventing cruelty to children or animals, and testing for public safety.
- Anyone can form a nonprofit. There are no age, residency, or other legal requirements.

What responsibilities accompany 501(c)(3) status?

- Though 501(c)(3) status benefits organizations, federal law does impose additional responsibilities on exempt organizations that non-exempt organizations are not required to follow.
- Recordkeeping is required of Section 501(c)(3) to keep books and records detailing both financial and nonfinancial activities.
- Filing Requirements of Form 990 with different schedules may be required on an annual basis.
- Under the IRS's disclosure requirements, nonprofit entities must make both annual information returns and their tax exempt application Form 1023 available/accessible to the public upon request and without charge.
- Failure to comply with the IRSs requirements will result in loss of tax-exempt status.

General Steps to Becoming a 501(c)(3)

- Draft and file Nonprofit Articles of Incorporation with the Nevada Secretary of State
- Prepare and file Form SS-4 with the Internal Revenue Service (IRS) to obtain an Employer Identification Number (EIN)
- Open bank accounts in the nonprofit organizations name
- Draft the organization's bylaws
- Prepare and file Form 1023 or Form 1023 EZ with the IRS
- Wait for Determination Letter from the Internal Revenue Service
- Obtain Nevada State Sales/Use Tax Exemption
- Register with State Attorney General