



# A Primer on Nonprofit Formation

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Presented to US Chess State Affiliates

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**US CHESS**

# Disclaimer

*This presentation is for informational purposes only and does not constitute legal advice. You should contact your attorney to obtain advice with respect to any particular issue or problem. References to specific resources throughout the presentation are intended to highlight examples of things we cover in the presentation and only should be used in conjunction with proper vetting by you, in consultation with counsel.*

# Webinar Outline



INTRODUCTION



GETTING STARTED



STATE ACTIONS



FEDERAL ACTIONS



COMPLIANCE



QUESTIONS



# Introduction: Why Form a Nonprofit?



# Getting Started: Setting Up for Success



**Define clear mission that meets the charitable test under 501(c)(3) of IRS code**



**Detailed description of the activities intended to carry out mission**



**Core group dedicated to carry out mission & willing to serve on board**



**Develop a budget**



**Adopt governance documents**

# Getting Started: Defining Your Purpose & Mission ✓

- Clearly states your reason for existence, your purpose
- Mission Statement:
  - Sets organizational direction
  - Unifies board and staff: common purpose
  - Expresses shared values about what's important
  - Aligns with goals and objectives
- US Chess Purpose
  - ...promote the study and knowledge of chess by educating the public...
- US Chess Mission Statement
  - *Empower people, enrich lives and enhance communities through chess*

# Getting Started: Describing Your Activities



- Who?
- How?
- Where?
- Why?
- What?

# Getting Started: Find Helpers



- Recruit others committed to organization's mission
- People willing to contribute time, expertise, network and funds
- Set a target range for size to minimize burnout, maximize effectiveness and be diverse in viewpoints
- “Helpers” become Board members



# Getting Started: Develop a Budget



- Budget is your plan or roadmap for spending
- Be realistic about both expenses and revenues
  - Related: a fundraising plan
- Consider a template that easily maps to required 990 filing
  - Revenue Categories
    - Contributions & Grants
    - Program Services
    - Investments & Others
  - Expense Categories:
    - Program Services
    - Management, General and Administrative
    - Fundraising

# Getting Started: Draft Governance Documents



- Legal documents outlining your organization's purposes, its structures and how it operates
- Some examples
  - Articles of Incorporation
  - Bylaws
  - Operating Policies
  - Other Policy Documents: Conflict of Interest Policy
- Document board decisions in minutes (approve at subsequent meeting)

# State Actions: Formalize your organization

- Formalize your entity
  - i.e. incorporate, File Articles of Incorporation
    - States vary in what is required for filing but your purpose & “helpers” will be part of it
  - How? Consult your state office handling business corporations
    - US Chess created a [resource](#) to assist you in identifying where & how to file
- Upon approval, obtain certified copy of your approved Articles
- Fees likely for filing, certified copy, preparatory work with attorney (if used)

# State Actions: Next steps

- Hold first organizational meeting
- Adopt bylaws
  - See <https://boardsource.org/resources/bylaws/> for what to include
- Elect officers – Chair/President, Secretary, Treasurer
- Create/Update website
- Open bank account
- Prepare to file IRS Form 1023
  - Draw on policies developed earlier by Board

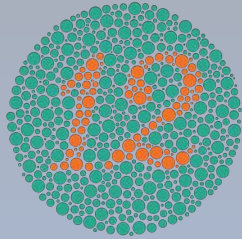
# Federal Actions: Apply for Tax-Exempt Status

- Apply for Federal Tax ID (FEIN), [IRS Form SS-4](#)
- Submit [IRS Form 1023](#) (Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code)
- Eligible organizations must be organized for one of the following purposes:

Religious	Charitable
Scientific	Literary
Educational	Testing for public Safety
Prevention of cruelty to children or animals	Fostering national or international sports competition



# Federal Actions: IRS Bright-Line Tests for 501(c)(3)



## Organizational Test

- Scrutinizes the purposes for which the nonprofit was created, as well as the powers granted to it in its Articles of Incorporation
- Must be organized exclusively for exempt purposes
- Organization cannot engage in activities which are not in furtherance of one or more exempt purposes



## Operational Test

- Must be operated to advance purposes set forth in the articles of incorporation
- Unrelated business activity should be limited
- No excessive financial benefit to insiders or other private interests
- No intervention in political campaigns
- Limited activity to influence legislation

# Federal Actions: What's Needed to Apply?

## Submit IRS Form 1023-Application for Exemption under 501(c)(3)

### Key Sections of the 1023:

Basic data and info about organization and structure. Include your By-Laws. (Part II)

Required Provisions in Your Organizing Documents – where your organizations tax-exempt purpose can be found (Part III)

Narrative description of organizational activities, past, present & future (Part IV)

Financial data, including financial statements (Part IX)

### Include Corporate Documents

Articles of incorporation (and any amendments)

Bylaws

Conflict of interest policy

### Filing Fee

Pay \$600 (\$275 for 1023EZ)

Filing must be done online at [www.pay.gov](http://www.pay.gov)



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# Federal Actions: After You Apply

- Be prepared to wait
  - 3 – 12 months, or longer (typical, 6 months)
- Follow all requirements as if you already have a favorable determination
- Accept tax-deductible contributions BUT if your organization is not approved, then the gifts are not tax deductible
- Investigate your state's tax laws on exemptions from corporate, real property, and sales taxes

# Compliance Requirements

- Annual Federal Tax Return: IRS Form 990, 990-EZ, 990-N, 990-PF or 990-T

Gross Receipts and Total Assets	990 to File
≤ \$50,000	990-N
< \$200,000 gross receipts & < \$500,000 total assets	990-EZ or 990
Gross receipts ≥ \$200,000, or Total assets ≥ \$500,000	990
Private foundation - regardless of financial status	990-PF

- A 990-T is filed when there is ≥ \$1,000 in unrelated business income

# Compliance Requirements

- State Requirements Vary
  - Charitable Solicitation Registration and Reporting
  - Annual/Semi-annual Report to State, may include audited financial statements
- Grant-receiving organizations might require independent audit



# Questions?

...and thank you!

# Resources

## Getting Started

- **Mission & Vision Statement:** <https://www.bridgespan.org/insights/library/nonprofit-management-tools-and-trends/mission-and-vision-statements>
- **Find Helpers:** Forming the Nonprofit's First Board: <https://boardsource.org/resources/first-board/>
- **Roles and Responsibilities of Board:** <https://www.councilofnonprofits.org/print/774>
- **Ethical Fundraising:** <https://www.councilofnonprofits.org/tools-resources/ethical-fundraising>
- **Develop a Budget:** <https://www.stayexempt.irs.gov/home/existing-organizations/form-990-overview>
- **Draft Governance Documents**
  - Every Board's Must-Have Documents: <https://boardsource.org/resources/every-boards-must-have-documents/>
  - What to include in your bylaws: <https://boardsource.org/resources/bylaws/>
  - Bylaws Template: <https://nonprofitally.com/start-a-nonprofit/nonprofit-bylaws/>

# Resources

## State Actions

- **Formalize Your Organization:** US Chess created a resource to assist you in identifying where and how to file:  
<https://docs.google.com/spreadsheets/d/1919YiDAjdjYG9BkJP67y3Z2dmQ9a0zni51Gv11rc2G0/edit?ts=5ea6df24#gid=0>

## Federal Actions

### • Apply for Tax-Exempt Status

- Apply for Federal Tax ID: <https://www.irs.gov/pub/irs-pdf/fss4.pdf>
- Application for Tax-Exemption: <https://www.irs.gov/pub/irs-pdf/f1023.pdf>
- Instructions for IRS Form 1023: <https://www.irs.gov/forms-pubs/about-form-1023>

### • What's Needed to Apply

- Conflict of Interest Policy: <https://form1023.org/nonprofit-conflict-of-interest-policy-and-agreement>
- If You Qualify for a 1023EZ Form: <https://www.pay.gov/public/home>

### • Bright-Line Tests for 501(c)(3)

- Organizational Test – IRS Code Section 501(c)(3): <https://www.irs.gov/charities-non-profits/charitable-organizations/organizational-test-internal-revenue-code-section-501c3>
- Organizational Test Analysis: <https://www.irs.gov/charities-non-profits/charitable-organizations/organizational-test-internal-revenue-code-section-501c3>
- Operational Test: <https://www.irs.gov/charities-non-profits/charitable-organizations/operational-test-internal-revenue-code-section-501c3>
- Operational Test Analysis: <http://www.dmlp.org/irs/operational-test>
- Small to Mid-Size 501(c)(3) Workshop: <https://www.stayexempt.irs.gov/home/resource-library/virtual-small-mid-size-tax-exempt-organization-workshop>

# Resources

## Compliance

- About Form 990: <https://www.irs.gov/forms-pubs/about-form-990>
- For financial transparency, audits are a good practice:
  - <https://www.councilofnonprofits.org/nonprofit-audit-guide>
  - <https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements>
  - <https://www.councilofnonprofits.org/nonprofit-audit-guide/federal-law-audit-requirements>
- Before accepting donations or engaging in fundraising activities, some states require that you complete a Charitable Solicitation Registration <https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-solicitation-initial-state-registration> or US Chess resource on getting started
- State compliance resources from Harbor Compliance: <https://www.harborcompliance.com/information/nonprofit-compliance-guide>

# Resources: Key Steps Checklist

- Incorporation
- Draft Governance
- Develop Budget
- Fundraising
- Recruit Helpers/Board Members
- Hold Organizational Meeting
- Set up shop – bank accounts, lease space, hire staff
- Apply for federal tax-exemption
- Compliance