

Filing for 501(c)3 Status

A FAQ from GoalBusters Consulting, LLC

www.goalbusters.net

Why file for 501(c)3 status?

Section 501(c)3 organizations are exempt from federal tax and are eligible to receive tax-deductible contributions from individuals. Also, foundations and corporations generally will not provide grants or other contributions to organizations that are not 501(c)3 organizations.

What responsibilities do I have as a 501(c)3 organization?

Please remember that this status is a privilege. You are obligated to:

- Maintain a corporate status in good standing in your state or states of operation
- Dedicate your assets and operations to charitable purposes, which are charitable, educational, religious, scientific, literary, fostering national or international sports competition, preventing cruelty to children or animals, and testing for public safety
- Keep accurate records that can be made available to public inspection on financial matters such as donations and how contributions are spent

And you must NOT operate for the benefit of a private individual, shareholder, founder's family or cause outside of charitable purposes.

How hard is it to file for 501(c)3 status?

There are four documents required from the IRS to file for 501(c)3 status. While that doesn't seem like much, it can be challenging to complete all the information requested correctly, so we generally recommend hiring an attorney or accountant familiar with nonprofits to assist you with this. From initial filing to acceptance can take 3-24 months, depending on the complexity of your filing and the case load of the IRS nonprofit division.

What should we do first?

Needs Assessment: Before you consider going down this path, it is very important that you do an in-depth assessment of whether your organization is needed. Questions include:

- What community need will you address?
- Who will benefit from your work?
- Who will be involved at the beginning? (We recommend at least three people who are passionate about the cause)
- Are there other organizations already addressing this issue?

Are there other ways to go about this other than starting a new organization?

Yes! You can find an existing organization with a compatible mission, start a designated fund at a community foundation, or find an organization with a similar mission and start a local chapter or satellite operation. Starting a new nonprofit organization is not something to enter into lightly, as there are over 1.5 million nonprofits in the United States alone! Plus, it can be very costly to start a new organization, because like many small businesses, you may run a deficit for the first 2-3 years of operation. As a founder, be prepared to invest a significant percentage of the initial budget with no financial return. But you will get "good karma" return! 😊

Resources: IRS Publication 4220, available at irs.gov; additional information at www.foundationcenter.org

This is not intended to provide legal advice, so please consult with an attorney for more information about your specific circumstance.