

Forming a Non-Profit Corporation – Quick Answers

A nonprofit corporation is simply a corporation that is formed pursuant to a different state law than a standard for-profit corporation. The corporation must be formed for some religious, charitable, educational, literary or scientific purpose. While a standard business corporation is designed to benefit and generate a profit for its shareholders, nonprofit do not have the profit motive. Nonprofit corporations are allowed to apply for tax-exempt status at both the federal and state level.

The first step is to file nonprofit articles of incorporation with the proper state agency. It is important that the articles contain the required clauses to make sure your articles with qualify for tax-exempt status. Business Filings Incorporated prepares and files nonprofit articles of incorporation.

After the nonprofit articles are filed, tax-exempt status must be applied for at both the federal and state levels. To apply at the federal level, a timely filing of form 1023 must be made. To determine what form needs to be filed at the state level, contact department that deals with taxation.

The corporation must comply with corporate formalities and hold annual meetings of directors and members. Bylaws must be adopted for the corporation. Documents that help you comply with these corporate formalities are contained in our corporate kit.

A nonprofit corporation is an entity formed for purposes other than making a profit. Nonprofit corporations are formed pursuant to different state laws than standard for-profit corporations; however, the process of forming a nonprofit is very similar.

To be considered tax-exempt, nonprofits must apply for federal and state (if applicable) tax-exempt status. Tax-exempt status is not automatically granted once the nonprofit corporation is formed. To apply for federal tax-exempt status, Form 1023 must be filed with the IRS. For state requirements, it is best to contact the department responsible for taxation in the state of formation.

Like standard for-profit corporations, nonprofits provide limited liability protection. The personal assets of the directors or officers typically cannot be used to satisfy the debts and liabilities of the nonprofit.

To qualify for federal tax-exempt status under 501(c)(3) of the Internal Revenue Code, the nonprofit must be organized and operate for some religious, educational, charitable, scientific, literary, testing for public safety, fostering of national or international amateur sports, or prevention of cruelty to animals or children purpose permitted under this section of the code.

In order to form a nonprofit corporation, nonprofit articles of incorporation or a nonprofit certificate of incorporation must be filed with the appropriate state agency and the necessary state filing fees paid. The formation documents must include certain clauses and information, such as a very detailed business purpose statement, in order for the entity to qualify for tax-exempt status. Thereafter, form 1023 must be filed with the IRS.

Advantages of a nonprofit corporation:

- Directors are typically not personally responsible for the debts and liabilities of the nonprofit corporation
- Nonprofit corporations have the ability to apply for both federal and state tax-exempt status
- Certain nonprofit corporations are eligible to receive public and private grants, making the obtainment of operating capital easier
- With 501(c)(3) nonprofits, donations made by individuals to the nonprofit corporation are tax-deductible