

How to Become a Recognized Nonprofit

By Carol L. Topp, CPA

An organization is either a nonprofit or a for-profit venture. In order to be recognized as a nonprofit, you must take some steps to look and act like a nonprofit group.

1. Have a mission statement that focuses on a charitable, educational or religious purpose, not a profit-making purpose.
2. Establish a board of leaders, so that a single person does not “own” the organization.
3. Create bylaws to govern your organization.

If you desire to be a “recognized” not-for-profit and reap the many benefits of that status, you should file for tax exempt status with the Internal Revenue Service. The benefits of federal recognition as a tax exempt nonprofit include tax free income and tax deductible donations in some cases.

Your State

Your group can be recognized in your state as a nonprofit organization by filing for nonprofit incorporation. Usually the Secretary of State’s office will grant your group an identity as a nonprofit corporation. This means that your group is a separate legal entity with nonprofit status. See the article titled “Nonprofit Incorporation: Do You Need It?” for more information on the benefits of incorporating. Filing for nonprofit incorporation is an important step because it leads to federal tax exemption. Tax exempt status establishes that any financial surplus (i.e., profit) your group might have is not to be taxed. Instead the surplus is to be used for your nonprofit purpose. This website has listings by state of nonprofit statues and links to each state’s incorporation websites:

<http://www.hurwitassociates.com>

The Internal Revenue Service

The IRS grants tax exempt status to organizations. Most tax exempt organizations are classified as “qualified charities” “501(c)(3)” organizations after the IRS Code that explains eligibility. 501(c)(3) qualified charity status is the granddaddy of nonprofit recognition. It establishes your group as having passed the IRS application process. In return, your “profits” are free from federal taxes and your donors may make tax-deductible gifts to your organization. . See the articles titled *501(c)(3) Status: Do You Need It?* and *501(c)(3) Status: Are You Ready?* for details on obtaining this prized status.

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