



# Fiscal Fitness: Acquiring Nonprofit Status

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This information is not intended to be construed as legal advice and you are encouraged to seek the advice and assistance of an attorney to accomplish this goal.



# How Do we acquire 501(c)(3) status?

- ▶ **Becoming a 501(c)(3) Nonprofit Organization: A two-step process**
- ▶ How can your Chapter become a Nonprofit with its own tax exempt number? Set forth below is an overview of the process your chapter should follow to obtain nonprofit status (i.e. becoming a 501(c)(3) corporation). This information is not intended to be construed as legal advice and you are encouraged to seek the advice and assistance of an attorney to accomplish this goal.

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# Why should your chapter obtain 501(c)(3) status?

- ▶ Up to now, most chapters have been able to “use” their parish’s “tax-free” number.
- ▶ Retailers have been willing to accept the this.
- ▶ Banks have accepted use of the parish number so that chapters can open and maintain checking and other bank accounts.
- ▶ Current banking regulations have made the document requirements for bank accounts much more stringent. Since the passage of the Patriot Act, post 9/11, bank accounts cannot be maintained using documentation that belongs to another party or entity.
- ▶ Some of our chapters have even had difficulty changing authorized signatories on their checks because they cannot prove the chapters’ identity and legal status.
- ▶ As a result, it is recommended that Chapters acquire 501(c)(3) Nonprofit status.

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# How Do we acquire 501(c)(3) status?

- Becoming a 501(c)(3) is accomplished in two steps:
- Step one is to comply with state law to create a nonprofit corporation and then to obtain and EIN.  
Having done that,
- step two is to file the appropriate forms with the federal government (the IRS) to become a federally recognized nonprofit, also referred to as a Tax Exempt **501(c)(3)**.



# How Do we acquire 501(c)(3) status?

- ▶ **Incorporating a nonprofit corporation.** Forming a corporation involves the creation of a legal entity in the state where your chapter is located. The corporation is created at the state-level by filing a formation document, generally referred to as “Articles of Incorporation”.
- ▶ Nonprofit corporations do not have shareholders. They are governed by a board of directors.
- ▶ Once you have incorporated, you will receive your filed certificate of incorporation from your state.
- ▶ Next, you will apply for your Employee Identification Number (EIN). The EIN is like a social security number for your corporation. You can apply on line by filling out Form SS-4.






# How much does it cost to incorporate?

- ▶ The chapter must comply with state law to form a legal corporation. Each state imposes a filing fee to file the Articles of Incorporation which is usually fairly modest.

## **Do we have to hire a lawyer?**

- ▶ The cost of hiring a professional to prepare and file your articles of incorporation could be high, however every parish has one or more attorneys who respect and support the Philoptochos in its mission.
- ▶ It is hoped that the chapter could obtain the services of an attorney who is either a member of Philoptochos or within the parish on a pro bono basis for this purpose.



# Obtaining 501(c)(3) IRS Tax Exemption

- Once the corporation is formed, obtaining 501(c)(3) Nonprofit status involves the preparation and filing the 1023-EZ Form with the IRS, a federal agency.
- The 1023-EZ application form was introduced on July 1, 2014. It is a new, shorter application form to help small charities—like Philoptochos chapters—apply and receive 501(c)(3) Nonprofit status more easily.
- Once you obtain **501(c)(3) IRS Tax Exempt Status**, you will have your own tax ID number and will no longer have to use the number belonging to your parish.




# How much does it cost to file the necessary IRS form?

- IRS Form 1023-EZ is a substantially shorter and less expensive option for startup nonprofit organizations. Because your newly formed nonprofit corporation will be the applicant, the time required to complete the application is minimal and the filing fee is low. The turnaround time for IRS approval is fairly quick and the IRS “user” or filing fee is \$400.
- If your chapter’s projected annual revenue averages \$10,000 or more during the next four years, then your user fee is \$850.00. If your chapter’s projected annual revenue averages less than \$10,000 during the next four years, then your user fee is \$400.


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# Do we need a lawyer or accountant to file the 1023-EZ?


- ▶ A consideration is the possible cost of hiring a professional to prepare your application. An attorney or CPA certainly is certainly qualified to provide such services and it is hoped that the chapter could obtain the services of an attorney or CPA who is a member of Philoptochos or within the parish on a pro bono basis to get this done.
- ▶ In any event, the form is quite simple, doesn't require much time to complete and is geared to the needs of small nonprofits.



# Documents for your review and assistance...

- ▶ To assist you and those assisting your chapter in accomplishing the goal of obtaining 501(c)(3) Nonprofit status the following documents:
- ▶ IRS press release Dated July 1, 2014 explaining the purpose of the new 1023-EZ Form
- ▶ Article from April 2015 New York Times about the “E-Z” process
- ▶ Guidelines from the Metropolis of Chicago explaining how to do step 1: Creating the Nonprofit Corporation (note: this information is Illinois-specific but will be helpful to you in this process).

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# Acquiring 501(c)(3) Nonprofit status

- Hopefully this information will assist you in taking next steps for the implementation of your chapter's 501(c)(3) Nonprofit status. It is important to note that this information is general in nature, is not intended to be legal advice and that each chapter must comply with state laws to form its nonprofit corporation and IRS requirements to obtain 501(c)(3) Nonprofit status.

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