

STEPS IN CREATING A NONPROFIT, TAX EXEMPT CORPORATION

1. Write a statement of purpose. Include examples of proposed activities.
2. Decide whether the advantages of nonproftihood outweigh the disadvantages.
3. Consider testing the water before actually incorporating. You could begin your activity under the auspices of some other organization, or you could seek funds under a fiscal sponsor (see below) and do your first project on an ad hoc basis.
4. Write articles of incorporation and file them with the Minnesota Secretary of State.
Turn around time: about two weeks. Filing fee: \$70 if mailed in, \$90 if filed in person or online.

NOTE: The state can provide preprinted nonprofit articles of incorporation. They are sufficient for the state's requirements but do not contain certain provisions required by the IRS. Do not use them if you intend to file for tax-exempt status. (See step 9.)

5. Apply for a federal employer identification number, even if you do not intend to employ anyone. (Form SS-4 can be obtained at any federal office building, by calling 1-800-TAX-FORM, or at www.irs.gov/pub/irs-pdf/fss4.pdf.) This allows you to set up a bank account with your EIN instead of your name.
6. Establish a fiscal sponsor relationship with a tax-exempt organization, so you can seek funds prior to your tax-exempt status being recognized. (OPTIONAL)
7. Begin the process of becoming operational:
 - write bylaws (required by the IRS)
 - write projected budgets for the first two years of existence (required by the IRS)
 - recruit a board of directors (it's recommended to keep your first board small- 3-5 members)
 - open a bank account and set up a bookkeeping system
 - if you are selling taxable goods, get a sales tax permit from the Minnesota Department of Revenue.
8. Hold the first formal board meeting, approving the bylaws and the budgets. Other essential business might include: passing board resolutions on check-signing authority, electing officers, fundraising plans, formally recognizing corporate obligations, and accepting corporate assets.
9. Complete IRS Form 1023, "Application for Recognition of Tax-exemption." The turn-around time varies, and may take several months.* The filing fee is \$400 or \$850, depending on applicant's budget size. Minnesota Council of Nonprofits advises average time needed to fill out the 1023 is 60 hours. (Form

1023 can be obtained from any federal office building, by calling 1-800-TAX-FORM, or at www.irs.gov/pub/irs-pdf/f1023.pdf)

NOTE: Your organization may be eligible to complete the 1023 EZ form instead of the 1023. The 1023 EZ is less paperwork, less money, and the turn-around time seems to be much shorter. Generally speaking, organizations with gross receipts of less than \$50,000.00 and assets of less than \$250,000.00 are eligible, though size, history, activities, and foundation are also factors. We recommend looking at the “Eligibility Worksheet” on page 11 of the 1023-EZ’s instructions to know for sure.

10. Receive “advance ruling” determination letter from the IRS. (If your application is denied, consider an appeal.)
11. Apply to Minnesota Department of Revenue for sales tax exemption and a Minnesota tax ID number.
12. Apply to Postal Service for nonprofit bulk rate permit.
13. Contact the Charities Division of the Minnesota Attorney General’s office to receive information on registration under the Charitable Solicitations Act.
14. As soon as the corporation has employees, obtain unemployment compensation and workers compensation insurance. Begin withholding payroll taxes.
15. After the IRS advance ruling period ends, provide financial information requested by the IRS. Receive final ruling.

ADDITIONAL NOTES

Where is my exemption application?

<http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Where%27s-My-Application>

Top ten tips to shorten the tax-exempt application process

<http://www.irs.gov/Charities-&-Non-Profits/Top-Ten-Reasons-for-Delays-in-Processing-Exempt-Organization-Applications>