



STEPS TO STARTING A NONPROFIT

VISIONARY STAGE

Step 1: Determine if you really need to start a nonprofit.

Is starting a new nonprofit organization really the best way to accomplish the goals you have set forth? Other alternatives, including collaborating with an existing nonprofit organization, establishing an informal club or association (a viable option for groups with annual budgets under \$25,000), finding a fiscal sponsor, or forming a for-profit business, may achieve your objectives quicker, more efficiently, and for the best benefit of your target audience.

Step 2: Consider other alternatives to starting a nonprofit

Since many nonprofits are formed with high hopes and a few dedicated people and never get off the ground, investing time on the front end to determine the level of interest and availability of funds can help you better understand whether a new organization is needed. Listed below are five alternatives to starting a new organization:

1. Join an existing effort — Study the list of nonprofits already active in the same subject and geographic area and join their efforts as a volunteer, a board member or even as staff.
2. Create a special program of an existing effort — Analyze the list of nonprofits already active in the same area, identify the three most compatible with your ideas, and meet with them to explore creating a special project or initiative and negotiate your involvement. You may have ideas that they would welcome, including resources that may be available to finance the new undertaking. Your activity could be a sponsored project with a level of independence, but without the need for separate books, government reporting and boards and committees.
3. Start a local chapter of a national or regional organization — Explore the list of national organizations in the subject area of your interest, and see if a local chapter is needed in your geographic area.
4. Maintain an informal organization — This is a viable option for groups with annual revenues under \$25,000 with no employees. If your effort will be quite local and small, consider forming an unincorporated association or club -- have meetings and activities but skip the ongoing reporting requirements. Informal organizations can operate as a nonprofit, however, donations to an informal organization are not tax-deductible.

Step 3: Form an exploratory group.

Bring together a group of people who share a vision or concern and are willing to volunteer their time to the project. Considering who needs to be included and involved from the beginning may shape the organization and affect commitment levels later on.

Step 4: Decide on the purpose and mission.

The purpose of a charitable nonprofit must be for the public benefit and charitable purposes by the tax code 501(c)(3). It should establish a single mission and a set of goals and programs that will accomplish that mission.

This is a step where a new nonprofit should analyze what it wants to do, whom it wants to reach, and how it wants to impact society. A mission statement should be brief, timeless, and descriptive of what the organization is trying to accomplish. This statement will guide the organization through its initial formation, program development, growth and change.

Step 5: Recruit board members.

The initial board of directors will assume much of the responsibility in starting a new nonprofit. They will determine the direction and goals of the organization and set forth precedents for future board members. The first board writes the articles of incorporation and approves the original bylaws, does much of the initial fundraising and hires staff as the organization takes shape and becomes an entity in and of itself. This initial all-volunteer period can prove to be very challenging for new organizations.

Step 6: Check for availability and reserve a name.

Not only is it Arkansas law, it is crucial to your new organization's identity to obtain a unique name under which to operate. Any potential names for a new business or nonprofit can be checked through the Arkansas Secretary of State's Office for duplications. You may call the Secretary of State's Business and Corporate Services at (501) 682-3409 or access it directly at <http://www.sos.arkansas.gov>.

Organizations should reserve a unique name through the Arkansas Secretary of State's Office. Once a name is reserved, no other organization may use that name. To reserve your organization's name, use the "Request for Reservation of Name Form" available from the Arkansas Secretary of State which can be found at <http://www.sos.arkansas.gov>. The filing fee for this form is \$22.50 for online filing, or \$25 for a paper filing. Name reservations hold names for 120 days while the articles of incorporation can be filed.

PLANNING STAGE

Step 7: Write the articles of incorporation.

The founders of the organization should write its articles of incorporation. This document formally names the entity, its location, and its purpose. This document is the legal record of how the organization is to be managed. The 1993 Arkansas Nonprofit Corporation Act lists laws that govern Arkansas nonprofit corporations. It is important to remember when drafting the original articles of incorporation that parts of the Arkansas Nonprofit Corporation Act state the default laws that nonprofits must follow, unless their articles or bylaws state otherwise.

It is necessary to write and file the articles of incorporation prior to applying for tax-exempt status from the Internal Revenue Service. The IRS requires specific language to be used describing the charitable purpose of the organization, the plan for disposition of its assets upon dissolution, and the requirements it must follow for exemption.

Arkansas code annotated section 4-33-101 Securicor

Step 8: Incorporate as a nonprofit corporation

Corporate existence begins when the articles of incorporation are filed with the Arkansas Secretary of State. A primary benefit of incorporating an organization is in the area of risk management. The members of a nonprofit corporation are not liable for its debts or liabilities. Also, directors are not personally responsible for the obligations of the corporations, and they normally are not liable to the members or to outsiders dealing with the corporation so long as their conduct meets the standard duty of care applicable to corporate boards.

Incorporating an organization also provides stability during personnel changes, eases future relationships with funders, contractors and employees, and provides the means to apply for tax-exempt status through the IRS. Once the articles are filed, the organization will receive a “Certificate of Incorporation” from the Arkansas Secretary of State’s Office. This certificate includes a charter number unique to that organization. The charter number is used only internally by the Secretary of State.

To incorporate, complete the online form at <https://www.ark.org/sos/ofs/docs/index.php> for a fee of \$45 for online filing. You may also download the form in Adobe pdf format at: http://www.sos.arkansas.gov/corp_ucc/corp_forms/forms/NPD-1.pdf. The filing fee for forms sent by mail to the Arkansas Secretary of State’s office is \$50.

Step 9: Draft the corporate bylaws.

The bylaws will serve as the rule book for the nonprofit. The Arkansas Nonprofit Corporation Act is the basis for Arkansas nonprofit law and the organization’s bylaws should follow this law. There is substantial flexibility to writing the organizational bylaws to fit the uniqueness of an organization. They are flexible and relatively easy to amend as the organization changes and grows.

Bylaws are easier to amend than the articles of incorporation and should be reviewed frequently. This document should be more detailed than the articles of incorporation and address the following organizational issues:

- Membership — if the organization will have members, who they are, how/when membership meetings will occur, what notice is required for meetings, requirements of a special meeting, quorum, and voting.
- Board of directors — number, election process, meetings, length of term, number of terms allowed, vacancies, removals, quorum, officers, and standing committees.
- Fiscal management — fiscal year, committee/officer responsibilities, reporting requirements and dues.
- Amendments — how will amendments be made and approved.

Step 10: Hold first meeting of the board.

The first official meeting should consist of the initial board members or incorporators. This gathering marks the official start to the organization.

At the first meeting of the board, the initial board members must approve the drafted bylaws and adopt its principles. The new organization will also vote on new board members and officers as it is called for in its bylaws. Once these activities are accomplished, the board should begin tackling the mission and start the process of obtaining tax-exempt status.

Step 11: Create a business plan with a budget

Creating a thoughtful business plan during these beginning stages of a new nonprofit can provide a sense of direction to the organization as it develops. A plan should include what the organization’s goals are, what programs it will operate, where it will get funding, will it conduct events, will the organization have staff, volunteers, and more. It should also include a budget plan. Where will funding come from? Will programs rely on grants, individual donations, state or federal contracts? What expenses will the organization incur?

A business plan and budget are not only useful in thinking through the structure of the organization, but they are helpful in preparing the narrative and financial sections of IRS Form 1023, *Application for Recognition of Exemption*.

Step 12: Establish a fiscal year

The fiscal year is the financial year of the organization. Establish a fiscal year which ends during a natural break in the organization’s activities. If possible, coordinate the end of the fiscal year with funding sources. The fiscal year must end on the last day of a month; for example, December 31, September 30 or June 30.

Step 13: Form an accounting system

Establish an accounting system to record the receipt and expenditure of money in accordance with the Bylaws and with the reporting requirements that will be imposed on the organization by funders and governmental agencies. Keep in mind that simple is better. This doesn't necessarily require a computer; a notebook is often sufficient in the beginning.

Step 14: Set up system for keeping up with Minutes and preserving Documents

Establish a system for preserving corporate documents such as Articles of Incorporation, Bylaws and amendments (originals as well as a copy of each), and the minutes of board meetings, committee meetings and the meeting(s) of the incorporator(s). These documents are a permanent part of the organization's history. The IRS or other agency could ask to see those papers in the future, and you must be able to produce them.

Step 15: Consider Joining the Arkansas Coalition for Excellence (ACE)

Membership with ACE is open to all 501(c)(3) nonprofits in Arkansas for a sliding scale membership fee from \$25 (for organizations with budgets under \$25,000) to \$1,000 (for organizations with budgets over \$10,000,000). Membership is also available to businesses, consultants, government agencies, students, and individuals. Members receive several benefits, such as cost sharing, public advocacy, news, and opportunities for networking and collaboration on the nonprofit sector.

FEDERAL FILING

Step 16: Apply for Federal ID Number (EIN).

Nonprofit organizations should have an EIN, often referred to as a Federal ID Number, even if it has no employees. The EIN acts similarly to the social security number for individuals and may be requested when opening a bank account or in other fiscal operations. Organizations must receive their EIN before filing Form 1023. Use IRS Form SS-4 — Application for Employer Identification Number (EIN).

Organizations must be incorporated prior to applying for an EIN. There are no filing fees. Processing can take up to five weeks if application is through mail or fax; it's immediate through Tele-TIN telephone filing.

Arkansas organizations should mail their application to: IRS, Attn. Entity Control, Stop 6800, 2306 E Bannister Rd, Kansas City, MO 64999. For more information, call 1-800-829-4933 from 7:30 a.m. and 5:30 p.m.

Step 17: Obtain income tax exempt status from the IRS.

Once the organization's articles of incorporation have been filed and the bylaws have been approved by the initial board of directors, the next step for a new nonprofit is applying for federal tax exemption from the Internal Revenue Service. A common myth is that all nonprofits are automatically tax-exempt.

There are several steps and filing requirements an organization needs to complete before receiving exemption. And even then, not all organizations qualify for the same exemptions. The following applies for 501(c)(3) status which is the type of tax exemption which applies to charitable organizations.

First, obtain IRS Publication 557— Tax-Exempt Status for Your Organization. This 55-page document includes no forms to file, but lays out the federal laws regulating tax-exempt organizations. It is available free and serves as a useful reference guide for filing requirements, employment issues, lobbying expenditures, and many other complex nonprofit issues governed by the tax code and regulations.

Second, get copies of IRS Form 1023 and Form 8718 — Application for Recognition of Exemption under 501(c)(3) of the Internal Revenue Code. Form 1023 applies for a ruling or determination letter on an organization's exempt status under Section 501(c)(3). This package of forms contains both Form 1023 and Form 8718 (User Fee for Exempt Organizations Determination Letter Request). Form 8718 is used to process the fee for applying for tax-exempt status and must be included when filing Form 1023. Organizations applying for exemption under another 501(c) section should file IRS Form 1024.

The filing fee is \$850 for organizations anticipating gross receipts averaging more than \$10,000 during its first four years and \$400 for organizations anticipating gross receipts averaging less than \$10,000 during its first four years.

Also, obtain and fill out form 5768 (optional), if you plan to carry out any advocacy to influence legislation.

IRS Forms 1023 and 8718 must be submitted together. Processing time varies, but can take six months. Mail the forms to IRS, PO Box 192, Covington, KY 41012-1092.

NOTE: This checklist was prepared as a guide for persons who are considering forming a charitable nonprofit organization. Depending on the type of program and the sources of funding further registration, reporting, or licensing may be required.

The foregoing is provided as general information. It must not be construed as legal or tax advice. Each organization should consider its own legal and tax advisers to determine its own course of action.

CHECKLIST OF FORMS, PUBLICATIONS AND FEES

Form	Fee	Submit to	Description
Publication 557	None	Website: http://www.irs.gov/pub/irs-pdf/p557.pdf	An IRS publication that details the rules and procedures for seeking to obtain exemption from federal income taxes
Request for Reservation of Name	\$22.50 for online filing \$25.00 for paper filing	Arkansas Secretary of State Form: https://www.ark.org/sos/ofs/docs/index.php	Reserves a unique name for the organization.
Articles of Incorporation	\$50- paper filing \$45- online filing	Arkansas Secretary of State Form: http://www.sos.arkansas.gov/corp_ucc/corp_forms/forms/NPD-1.pdf	Legally incorporates the nonprofit.
Form SS-4	None	IRS Form: http://www.irs.gov/pub/irs-pdf/fss4.pdf	Applies for Employer Identification (Federal ID) Number.
Form 1023 and Form 8718	\$850 or \$400	IRS Form: http://www.irs.gov/pub/irs-pdf/f1023.pdf Form: http://www.irs.gov/pub/irs-pdf/f8718.pdf	Applies for federal tax exemptions under Section 501(c)(3) of the IRS tax code. Must accompany Form 8718 (User Fee for Exempt Organizations Determination Letter Request).
Application for Arkansas Business Permit	None	Department of Finance and Administration: Form: www.arkansas.gov/dfa/excise_tax_v2/et_su_faqs.html .	In general, nonprofit organizations are not exempt from sales taxes on purchases made in Arkansas. Arkansas Nonprofit organizations must collect sales tax on sales of tangible personal property
Charitable Registration	None	Attorney General Form: http://www.ag.state.ar.us/pdfs/charitables/Charity_Registration.pdf	Registers the organization for charitable solicitation.
Form 990	None	IRS Form: http://www.irs.gov/pub/irs-pdf/f990.pdf	Files tax return for tax-exempt organizations.
Annual Report	\$25	Attorney General Form: http://www.arkansasag.gov/pdfs/charitables/Charity_Registration.pdf	Files annual financial statements.
Annual Registration	None	Arkansas Secretary of State Form: http://www.arkansasag.gov/pdfs/charitables/Charity_Registration.pdf	Maintains organization incorporation status. Organizations must pay a \$25 fee to reinstate its incorporation.

USEFUL WEBSITES, ADDRESSES, AND PHONE NUMBERS

1. To Incorporate in Arkansas.

Arkansas Secretary of State
Business and Commercial Services
1401 West Capitol Avenue, Suite 250
Victory Building
Little Rock, AR 72201
Phone number: (888) 233-0325
Web Site: www.sos.arkansas.gov/corp_ucc.html

2. To Apply for Federal ID Number (EIN)

IRS, Attn.: Entity Control
Stop 6800
2306 E Bannister Rd.
Kansas City, MO 64999
Phone number: 1-800-829-4933

3. To Obtain 501(c)(3) Tax-Exempt Status.

P.O. Box 12192
Covington, KY 41012-0192
Information: (800) 829-1040
Forms: (800) 829-3676
Web Site: www.irs.gov/charities

4. To Obtain Arkansas Corporate Income Tax Exemption.

Submit a copy of the IRS Determination Letter, a copy of pages 1 and 2 of the IRS Form 1023 (or 1024) and a statement declaring Arkansas Code Exemption ([Arkansas Code Annotated 26-51-303](#)) to:

Arkansas Dept. of Finance & Admin. Corporation Income Tax Section
PO Box 919
Little Rock, AR 72203-0919
Phone number: (501) 682-4775
Fax: (501) 682-7114
Web Site: www.state.ar.us/dfa/

(If the organization has not yet obtained tax-exempt status from the IRS, it may still apply for Income Tax Exemption in Arkansas by submitting a copy of its Articles of Incorporation, Bylaws and [Form AR1023CT](#) to the above address.)

5. To Obtain Arkansas Sales Tax Exemption.

In general, nonprofit organizations are **not** exempt from sales taxes on purchases made in Arkansas. For more information, on any exemptions refer to the FAQ found here: www.arkansas.gov/dfa/excise_tax_v2/et_su_faqs.html. Nonprofit organizations must also collect sales tax on sales of tangible personal property. To do so, they must complete the [Application For Arkansas Business Permit](#). For additional information, contact the Sales & Use Tax Section at:

Sales and Use Tax Section
PO Box 1272
Little Rock, AR 72203-1272
Information: (501) 682-7104
Fax: (501) 682-7904
Web Site: www.arkansas.gov/dfa/excise_tax_v2/st_index.html

- 6. To Register with the Arkansas Attorney General.** Before soliciting in Arkansas, nonprofit organizations must submit the [Charitable Organization Application for Registration](#) along with a copy of the IRS Determination Letter, Articles of Incorporation, any contracts with paid solicitors, commercial co-venturers or fund-raising counsel, and the most recent IRS Form 990 to:

Office of the Attorney General
ATTN: Fund-Raiser Registration
323 Center Street, Suite 200
Little Rock, AR 72201-2610
Information: (800) 482-8982
Web Site: www.ag.state.ar.us/

Note: If total revenue exceeds \$500,000 an audit must be submitted to the AR Attorney General's office with submission of the tax records or annual report.

Note: Certain nonprofit organizations, such as religious organizations, educational institutions, political organizations, governmental organizations, nonprofit hospitals, and those receiving less than \$25,000 in contributions per calendar year, are exempt from this filing but must submit the [exemption application](#) to the Attorney General's office. Consult Arkansas Code § 4-28-401 for details

- 7. To Become a Member of Arkansas Coalition for Excellence**

Arkansas Coalition for Excellence
200 Market Ave, Suite 100
Little Rock, AR 72201
Office: (501) 375-1ACE; Fax: (501) 324-2236
Email: eingram@acenonprofit.org
Website: www.acenonprofit.org

- 8. Arkansas State Fees Listed:** http://www.sos.arkansas.gov/corp_ucc/corp_forms/forms/Non-Prof_Fees.pdf

Timeline For Starting a Non-Profit Organization

DISCLAIMER: This timeline represents a general estimate of how much time it takes to form a nonprofit. Please note that this time may be increased or decreased depending on the administrative, organizational, and financial development of an individual organization.

Months 1-3: Visionary Stage

- The first three months should be spent developing program ideas and researching existing organizations to identify any potential for overlap, collaboration, competition, etc. During these months, some key activities should be:
 - Determining if needs can be filled through an existing organization or if a new organization must be created
 - If existing organizations are not active in program area, conduct needs assessment to justify project
 - If justification exists for new organization, check for availability and reserve name with Secretary of State
 - Establish an exploratory board to gain advice and insight into program area

Months 3-6: Planning Stage

- During this period, formalize an organizational structure including formation of the board of directors and organization policies. The organizations key focus, during these months, should be:
 - Writing organization's Articles of Incorporation and Bylaws
 - Identifying potential revenue sources
 - Identifying potential external funding sources, particularly start up gifts and grants
 - Incorporate as a nonprofit organization with the Arkansas Secretary of State

Months 6-9: Federal Filing Stage

- During these months, the organizations primary goals should be to:
 - Apply for Federal Identification Number (EIN)
 - Obtain tax exempt status

Months 9-12: Organizational Stage

- Finalize and submit any applications/ requests for funding, if 501(c)(3) status is secured
- Train board members and staff to develop and implement program and its projects and activities
- Receive funding and begin actual service/ product delivery

