Overview of Accelerator Classes, 2019

• How to start a nonprofit 501(c)(3) organization, 2 July
• Introduction to grant writing, 6 August
• Assessment and evaluation of nonprofit programs, 3 September
• Logic models and theory of change, 1 October
• Tools for social change, 3 December
1. How to Start a Nonprofit 501(c)(3) Organization

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Yet Another Nonprofit?

- Extraordinary indication of compassion and energy to engage
- Also, indicates huge need for social assistance
- But, consider ...
- Operating as a sole proprietorship (don't bother incorporating except for liability protection)
- Teaming up with an existing nonprofit
- Who is already doing similar work, servicing the target population?
- Need a matrix of organizations by service(s) provided, by population
- Consult United Way 211:
  - [http://www.211connectsalabama.org](http://www.211connectsalabama.org)
  - Use key words to find affinity organizations
- Talk to the Nonprofit Concierge, Birmingham Public Library, 10-noon Thursdays
Learning Objectives

1. Identify types of NPOs
2. Explain tax exemption
3. Explain requirements for 501(c)(3)
4. Determine annual reporting requirements
5. Explain how to get really big

To Be Clear:

• Companies that don’t make a profit are not nonprofit organizations; they are just unprofitable: expenses equal or exceed income.
• Organizations incorporated as nonprofit corporations may still be liable for federal taxes.
• Only nonprofit organizations that meet IRS rules for public benefit can be ruled by the IRS as tax-exempt at the federal level, and only when they receive the IRS Letter of Determination.
• They can still be liable for state taxes, employer taxes, and federal taxes on unrelated income.
• After receiving the 501(c)(3) Letter, organizations must also register to solicit donations in Alabama.
Other Interesting Nonprofits

• 501(c)(4): Social welfare organizations (dark money)
• 501(c)(6): Business leagues; chambers of commerce; real estate boards
• 501(c)(7): Social and recreational clubs; country clubs

• 527 Organization: Tax-exempt groups to influence politics
• PAC, SuperPAC: Political Action Committee, 527 organization registered with the Federal Election Commission

Categories of 501 Nonprofit Organizations

• The IRS has some 30 different categories of nonprofits.
• We are only concerned with those that qualify as 501(c)(3) organizations.
• Only a few nonprofit organizations are very large; most are very small.
• There are about 12,000 nonprofits in Alabama, and about 1,600 are in Birmingham.
• Children’s Hospital of Alabama is the largest, at over $700 million in annual revenue; Southeastern Conference is second largest, with about $650 million in revenue.
Another Distinction

- Nonprofits that provide amenities:
  - Museums
  - Symphonies
  - Country clubs
  - Hospitals
  - College sports
- Nonprofits that provide services:
  - Shelters
  - Food banks and pantries
  - Daycare
  - Crisis centers
Generosity is Not Evenly Distributed

- Communities that are more well off, growing, and liberal tend to support amenities for their own enjoyment, rather than services for the poor.
- Poor and declining communities most in need of services tend to be in areas that have limited resources and a conservative ideology.
- This creates growing regional disparity in service provision and quality of life.
- How does this dichotomy apply to the Birmingham region?

Why Tax Exempt?

- The IRS offers tax relief to organizations that qualify as providing a public benefit
- They must have one or more exempt purpose and address one or more charitable activity
IRS: Exempt Purposes

- Charitable
- Religious
- Educational
- Scientific
- Literary
- Testing for public safety
- Fostering national or international amateur sports competition
- Preventing cruelty to children or animals

IRS: Charitable Activities

- Relief of the poor, the distressed, or the underprivileged;
- Advancement of religion;
- Advancement of education or science;
- Erecting or maintaining public buildings, monuments, or works;
- Lessening the burdens of government;
- Lessening neighborhood tensions;
- Eliminating prejudice and discrimination;
- Defending human and civil rights secured by law;
- Combating community deterioration and juvenile delinquency.
Key Steps

1. Name (this is intellectual property; be mindful of possible infringement)
2. EIN: SS-4
3. INC: Alabama Domestic Nonprofit Corporation Certificate of Formation
4. IRS Form 1023: Application for recognition of exemption
5. LOD: Letter of Determination from the IRS
6. Register with state to solicit contributions
7. Now the hard part (get money, do work)
8. Annual filing: Depends on level of revenue
9. Keep a Minute Book (binder of all documents)

IRS 1023: Two Tests

- Organizational
  - Limit purpose to exempt purpose(s)
  - Restrict/prohibit activities that are not exempt
  - Permanently dedicate assets to exempt purposes

- Operational
  - Activities advance exempt purpose(s)
  - Limited or forbidden activities that do not advance exempt purpose
Two Types of 501(c)(3) Organizations

• Private foundation (excise tax, e.g., 2% on investment income)
  • Single or limited source of funding and does not qualify as a public charity
  • Private operating foundation: private foundation that lacks broad public support but conducts exempt programs (rather than make grants)

• Public charity (no excise tax)
  • Broad public support from contributions, membership fees, user fees
  • Community foundation: a public charity that make grants to meet community needs and support local nonprofits

Annual IRS Reporting Requirements

• Form 990: Public charities
• Form 990-PF: Private foundations
• Form 990-EZ: Public charities with receipts less than $200,000 and assets less than $500,000
• Form 990-N: Gross receipts less than $50,000
• Form 990-T: Public charities and private foundations with unrelated business income of $1,000 or more
• Most information related to IRS must be publicly available
Duties of the Board

• Due diligence
  • Be informed; attend meetings; contribute

• Loyalty
  • Honest and good faith; solidarity; vigilance against conflicts of interest

• Care
  • Act with prudence; offer perspectives; ask for review when necessary; know and respect the distinction of roles of board and staff; work cooperatively

Accountability

• The Board is ultimately responsible for the organization (so get your board right)
• If the organization violates IRS tax regulations, the IRS can take legal action
• All other malfeasance comes under the jurisdiction of the state Attorney General
• If there is tax malfeasance, the IRS still defers to the state Attorney General to take action
Capacities for Nonprofit Success

• Develop a deep bench of expertise
• Build a strong reputation in the community of practice
• Cultivate relationships with funders and collaborators
• To get big, align with a single funding source whose mission is best served by the nonprofit

Big NPOs: Concentrated Funding Sources

• Government, 40%
• Service fees, 33%
• Corporate (largely in-kind, such as food and medicine), 19%
• Individuals, 6%
• Foundations, 2%
• Total, 100%
Data Sources

- [www.guidestar.org](http://www.guidestar.org): See Form 990s for all nonprofits over $50,000
- [www.bls.gov](http://www.bls.gov): See salary levels for all occupations, which vary by location

Get Experienced Nonprofit Help

- Lawyer
- Accountant
- Banker
- Technical support
- (Don’t put service providers on the board)
Closing Remarks

• Managing a nonprofit organization, like any company, takes money and a sustained effort.
• Your idea may be better pursued as a program within an existing nonprofit organization that shares your mission.
• If your nonprofit goes out of business, all of its assets must be transferred to another 501(c)(3) nonprofit. You cannot legally benefit from the organization’s assets.
• Good luck!
• Any questions?

References

• Information on the Harvard Club of Birmingham
  http://hcbirmingham.clubs.harvard.edu