

CHECKLIST FOR STARTING A NONPROFIT IN MARYLAND

Develop, Organize, and Build the Foundation for Your Organization

Establish a Purpose

The organization's purpose needs to be aligned with the IRS 501(c)(3) statute.

According to the IRS: To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes outlined in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, *i.e.*, it may not attempt to influence legislation as a substantial part of its activities, and it may not participate in any campaign activity for or against political candidates.

Create a Mission Statement

Develop a statement that summarizes the vision (big picture idea of what you want to achieve), mission (general statement of how you will achieve vision), and core values (how you will behave during the process).

Research Similar Organizations

Conduct a market analysis to identify other organizations that have a similar purpose to your intended organization. This information will help you determine the community's need, the viability of an idea, the types of programs that already exist, and the potential level of support that exists. This information can be used to complete a competitor analysis (a comprehensive analysis of your competition's strengths and weaknesses, which will help you establish what makes your organization unique).

Choose the Organization's Name

Check availability of the name of your organization with the Maryland Department of Assessments and Taxation. The 'Trading As' or (trade name) is the name by which your organization is known to the public to distinguish it from another organization or person. Consider googling the name to ensure the name is not shared by another entity (even in another state). If the name already exists and the name is still what you want, make sure your organization's purpose is not the same purpose of the organization that currently carries the name you want. Consider being innovative while choosing a *different* name.

Decide on a Legal Structure

Choose whether your organization will be a trust, corporation, or association. The legal structure will determine whether you file an IRS Form 1023 or IRS Form 1024.

The IRS recognizes 29 types of nonprofit organizations. The most common type of nonprofit organization is the 501(c)(3), also known as charitable organizations. 501(c)(3) organizations fall into two categories: Public Charity and Private Foundations.

Recruit a Board of Directors and Elect Officers

Select a group (5-7) unrelated individuals who will be legally responsible as fiduciaries for the organization's governance, finances, and legal compliance. At a minimum, elect a Chair, Secretary, and Treasurer to govern Board activities.

Draft Articles of Incorporation

The Articles of Incorporation act as a charter to establish your organization's existence and set forth basic information about the organization. At a minimum, the Article of Incorporation contains pertinent information such as the firm's name, address, and agent for the process, corporation activities. The single document should also state the organization will not engage in political or legislative activities prohibited under section 501(c)(3). Upon dissolution of the corporation, any remaining assets will be distributed to another nonprofit, government agency, or for another public purpose.

Draft Bylaws

Bylaws are the organization's governing document and dictate how the Directors functions and essential decisions are made and carried out. The State of Maryland does not require a copy of an organization's bylaws. Still, they must be attached to the IRS Form 1023: Application for the Recognition of the Exemption Under Section 501(c)(3) Internal Revenue Code.

Bylaws alone are not organizing documents. However, if your organization has adopted bylaws, include a current copy. The bylaws need not be signed if submitted as an attachment. If an amendment has officially changed your organization's name to your organizing instruments, you should also attach a conformed copy of that amendment to your application.

Develop a Conflict of Interest Policy

The purpose of the conflict of interest policy is to protect the tax-exempt organization's interest when contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the organization or might result in a possible excess benefit transaction. This policy will ensure that conflicts of interest are both avoided and mitigated when decisions are made regarding the use of organizational resources and/or assets. A Conflict of Interest Policy and accompanying Declaration of Interest Statement will also support the designation of board members who will be able to act in the organization's best interest. The policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

Develop Program Plans and Budget

Describe in detail the program and service you plan to offer through the organization. This should include whom you plan to serve and by what means. Next, create a budget forecast (for the first 3-5 years) and necessary expenses to operate your organization and deliver the program or services.

Develop a Fundraising Plan

Identify potential sources of income upon which you can rely to support the organization's cause. Consider grants, contracts, donations, fees for service, etc.

File IRS Form SS-4 – Obtain Employer Identification Number (EIN)

Obtain a Federal Employer Identification Number (EIN). An EIN is also known as a Federal Tax Identification Number and identifies a business entity. Generally, organizations need an EIN. Every exempt organization must have an EIN, whether or not it has any employees. An EIN is required before an exemption application is submitted.

Filing Fee = \$0

Hold Organization *First* Meeting

Meet with newly appointed Board of Directors and elected officers to make initial decisions, adopt/ratify bylaws, accept articles of incorporation, and elect officers and additional directors. Keep minutes of this and every meeting.

File for Legal Status with Federal and State Government

Before filing any federal or state applications, gather or develop the following info:

- List of Board members, including home address, phone numbers, and the social security numbers of at least two of your elected officers (needed for the MD CRA).
- Detail narrative describing the **past, present, and future activities** of your organization
 - Your application must include a detailed description of your organization's proposed activities of section 501(c)(3) organization and a narrative description of anticipated receipts and contemplated expenditures. When describing the activities in which your organization expects to engage, you must include the standards, criteria, procedures, or other means that your organization adopted or planned for carrying out those activities.
 - To determine the information you need to provide, you should study the part of this publication that applies to your organization. The appropriate chapter will describe the purposes and activities that your organization must pursue, engage in, and include in your application to achieve exempt status.
 - Often, your organization's articles of organization (or other organizing instruments) contain descriptions of your organization's purposes and activities.

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- Your application should describe, completely and in detail, your past, present, and planned activities.
- Detailed description of your organization's **programs** and/or **services & fundraising activities**
 - Your application must include a detailed description of your organization's proposed activities, including each fundraising activity of section 501(c)(3) organization and a narrative description of anticipated receipts and contemplated expenditures. When describing the activities in which your organization expects to engage, you must include the standards, criteria, procedures, or other means that your organization adopted or planned for carrying out those activities.
- Detailed description of financial data
 - Unless you are filing Form 1023-EZ, your application must include financial statements showing your receipts and expenditures and a balance sheet for the current year. The IRS also requires the three (3) preceding years (or for the number of years your organization was in existence if less than four (4) years. For each accounting period, you must describe the sources of your receipts and the nature of your expenditures.
 - If you have not yet begun operations or have operated for less than one (1) year, a proposed budget for two (2) full accounting periods and a current statement of assets and liabilities will be acceptable.
- Detailed information on the organization's intellectual property
- Copy of lease agreements, contracts, loans, or other agreements
- Copy of professional licenses (if applicable)
- Copy of *signed* (official) Articles of Incorporation
- Copy of *signed* (official) Bylaws
- Copy of the mission statement
- Organization's physical location, phone number
- Organization's website address
- Organization's email address
- Accountant information (if applicable)
- Attorney information (if applicable)
- Bank information (if applicable)
- Registered agent information

Do not submit original documents because they become part of the IRS file and cannot be returned. When submitting attachments, every attachment should show your organization's name and EIN. It should also state that it is an attachment to your application form and identify the part and line item number to which it applies.

A conformed copy is a copy that agrees with the original and all amendments to it. If the original document required a signature, the copy should either be signed by a principal officer or, if not signed, be accompanied by a written declaration signed by an organization's authorized officer. With either option, the officer must certify that the document is a complete and accurate copy of the original. A certificate of incorporation should be approved and dated by an appropriate state official.

File IRS Form 2848 – Power of Attorney and Declaration of Representation

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Use this form to authorize an individual to represent you before the IRS. The individual you authorize must be a person eligible to practice before the IRS. Your authorization of a qualifying representative will also allow that individual to receive and inspect your confidential tax information.

Filing Fee = \$0

File IRS Form 8821 – Tax Information Authorization

Use this form to authorize any individual, corporation, firm, organization, or partnership to inspect and/or receive your private tax information. They can receive information from any IRS office for the tax information during the years listed in the application. When this form is completed, it gives the appointee limited power over your financial information. Completing this form will not allow them to represent you to the IRS, execute waives, sign documents, or close agreements. If you want them to have the power to represent you, then you must file for a power of attorney with IRS Form 2848 listed above.

Filing Fee = \$0

File IRS Form 8718 – User Fee for Exempt Organization Determination Ltr (*if applicable*)

Organizations applying for federal income tax exemption file this form with their Determination Letter application to record the required user fee payment. The initial request for a determination letter is filed by new organizations that anticipate gross receipts averaging not more than \$10,000 during its first four (4) years.

Filing Fee = ~\$850 (check IRS website)

File Articles of Incorporation with MD Department of Assessment & Taxation

File Tax-Exempt Non-Stock Articles of Incorporation. To this corporate charter qualify your Organization for federal 501(c)(3) tax-exempt status, a dissolution clause must be included and meet the IRS's requirements. The articles should indicate, "if the organization is dissolved, assets will be distributed for an exempt purpose described in section 501(c)(3), or to the federal government, or a state or local government for a public purpose".

The article of incorporation is filed with the Maryland State Department of Assessments & Taxation and attached to the IRS Form 1023: Application for the Recognition of the Exemption Under Section 501(c)(3) Internal Revenue Code.

Filing Fee = ~\$120 (check IRS website)

Register the Organization's Name

Check availability of the name of your organization. Register your organization 'Trading As' name with the Maryland Department of Assessments and Taxation. A trade name is a

name by which your organization is known to the public to distinguish it from another organization or person.

Filing Fee = ~\$25 (check IRS website)

Register the Organization's Logo

Register your organization's "Trademark" (logo) with the Maryland Department of Assessments and Taxation. Any organization that adopts and uses a mark in Maryland may file in the Office of the Secretary of State an application to register the mark. If the statutory requirements have been met, the Secretary of State will issue a certificate of registration. A trademark is a symbol, word, or words legally registered or established by use as representing a company or product.

Filing Fee = ~\$275 (check IRS website)

File IRS Form 1023: Application for the Recognition of the Exemption

Organizations file this form to apply for recognition of exemption from federal income tax under section 501(c)(3)*.

- Attach a conformed copy of the Articles of Incorporation
- Attach a conformed copy of the Bylaws
- Attach IRS Form 2848 – Power of Attorney and Declaration of Representation
- Attach other files as appropriate

Filing Fee = \$0 (see IRS FORM 8718) (check IRS website)

(*) Organizations not forming as a 501(c)(3) should file the IRS Form 1024.

File MD Form COR-92: Registration Statement for Charitable Organizations

501(c)(3) non-profit organizations that have secured tax-exempt status from the IRS often ask for donations from supporters. These organizations must file MD Form COR-92 with the State of Maryland if they wish to ask people or other organizations to donate money.

- Attach Articles of Incorporation
- Attach Bylaws

Filing Fee = \$0 - \$300 (Revenue driven) (check IRS website)

File MD Form CRA: Combined Registration Application

Organizations file this form to obtain:

- sales tax exemption
- income tax withholding account
- unemployment insurance account

Filing Fee = \$0 (check IRS website)

File MD State Income Tax Exemption

Submit a letter of request with a description of the Organization, Bylaws, financial statements, and IRS 501(c)(3) determination letter to:

Filing Fee = \$0 (check IRS website)

File MD Form 1 – Personal Property Return

A Maryland personal property return must be filed by organizations incorporated, qualified, or registered to do business in the State of Maryland. This return is required even if the organization owns no property in the State or has not conducted any business activity during the year.

Filing Fee: \$0 (check IRS website)

Obtain State or Local Licenses/Permits

File Annual Reports to Maintain Status

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Filing Fee: \$0 (check IRS website)

File IRS Form 990, 990-N, or 990-Z – Return of Org. Exempt From Income Tax

Most small tax-exempt organizations whose annual gross receipts are typically \$50,000 or less can satisfy their annual reporting requirement by electronically submitting Form 990-N if they choose not to file Form 990 or Form 990-EZ instead. Check with your accountant on exceptions.

File MD Form COF-85 – Annual Financial Report for Charities

Form COF-85 may be filed instead of IRS Form 990 or Form 990-EZ if an organization is exempt from these filings or files the 990-N.

Filing Fee: \$0 (check IRS website)

File MD Form 500 – Maryland Corporation Income Tax Return

The MD Form 500 is used by a corporation and other organizations to file an income tax return for a specific tax year or period.

Filing Fee: \$0 (check IRS website)

☐ File MD Form – Annual Update of Registration

For organizations that are soliciting contributions/donations, these organizations must submit an initial registration and follow-up with annual renewal registrations that describe the type of fundraising activities the nonprofit is engaged in. These state law requirements are known as "charitable solicitation" regulations. -

Filing Fee: \$0 - \$200 (depending on revenues) (check IRS website)


Note: This list is not all-inclusive of all nonprofit organization's responsibilities. Work with your accountant to comply with all state and federal laws for actions such as:

- **Substantiation and disclosure requirements**
- **Maintaining accurate and complete organization and financial records**
- **Complying with employment laws**
- **Securing and maintaining insurance**
- **Board governance and oversight**

To ensure the ongoing success of your organization, take the time to develop a:

- ❖ **Business Plan**
- ❖ **Strategic Plan**
- ❖ **Fundraising Plan**
- ❖ **Marketing Plan**
- ❖ **5-Year Budget**

✚ IMS provides nonprofit management services to support the organization's growth.

 **Let us help you breathe life into your idea by assisting you in **Starting a Nonprofit.****

As nonprofit management specialists, **Integrative Management Solutions** provides management assistance to nonprofit organizations to ensure the organizations' operational efficiency and effectiveness. We deliver personal, individualized services to your organization's needs. Our high-quality, affordable management solutions are focus on sustainability.

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