

Common 501(c)(3) Rules and Regulations

Types of 501(c)(3) Organizations

The federal tax code lists several [different types of organizations](#) that don't have to pay income taxes. Here are some of the basic categories:

- Charities
- Hospitals
- Religious organizations
- Educational institutions
- Scientific organizations
- Literary groups
- Groups that test for public safety
- Groups that foster national or international amateur sports competitions
- Anti-cruelty organizations for animals and children

The federal government also classifies private foundations as nonprofit organizations. These types of organizations are largely philanthropic in nature. Because they invest some percentage of their fundraising dollars, the federal government has different rules that they must abide by to maintain their status as a nonprofit organization.

Organizations that receive more than one-third of their support from gross investment income are considered private foundations. The IRS requires private foundations to submit detailed tax returns.

Start-up Rules for 501(c)(3) Organizations

A 501(c)(3) organization typically begins when a [group of people share a common goal of starting a nonprofit organization to fill a need within their community](#).

After carefully choosing a name for the organization, the founders get to work writing the articles of incorporation. [The articles of incorporation](#) must include the corporation's name, contact information, purpose, registered agent, founding directors and information about shares of stock, because once they are filed, they become public record. In most states, founders file the form for the articles of incorporation with the Secretary of State's office.

Organizations usually have to designate an "incorporator" who signs and files the articles of incorporation with the proper authorities and pays the appropriate filing fee. There may be separate forms for applying for federal or state tax-exempt status.

Bylaws are separate and different from the articles of incorporation. The founding directors write the bylaws, which outline how the nonprofit runs, including the rights and responsibilities of officers and directors. Nonprofit organizations don't have to file bylaws with the state, but they need to keep them in their files.

The next step is usually to appoint a founding board of directors and to hold the first board meeting. After that, the board needs to follow up on obtaining all of the proper licenses and permits, and to open a bank account for the nonprofit's funds.

Dissolving a Nonprofit Organization

It's much easier to start a nonprofit than it is to [dissolve it](#), and nonprofits must obey certain rules in dissolving their organizations. The intent is to dissuade people from starting nonprofit organizations, shutting them down after a time and keeping the profits for themselves. There are certain steps related to dissolving a nonprofit, and it's best to gain the help of an attorney or tax professional.

A nonprofit may only distribute assets to another tax-exempt organization. The board may vote to dissolve the organization, file dissolution papers with the state and the IRS, and select another nonprofit organization to which to transfer any assets. The board will need

to pay all contractual obligations and debts before dissolving the nonprofit. If there aren't enough assets to pay remaining debts, the nonprofit may need to file bankruptcy. The board could be held liable for not properly dissolving a tax-exempt organization.

It's important to remember that the government values nonprofit organizations for their commitment and sacrifice. The nonprofit savings in tax dollars are intended to serve the public in their communities, not to profit individuals or groups of individuals. The rules and regulations are designed with the intent that nonprofits will start out strong and enjoy long-term sustainability. Nonprofits that decide to close their doors for whatever reason don't get to pocket any remaining funds.

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