

How to Receive Nonprofit Status

Hundreds of groups exist as a result of individuals getting together and deciding to conduct programs to benefit people in their community – a program to feed the hungry, to perform dance or theatre, to create jobs, to mentor youth, or to educate adults. These programs are “charitable” because their purpose is to do something for the public good; however, this does not define them as a nonprofit organization.

In order to prevent misuse, the IRS has strict guidelines for securing nonprofit status. Some groups should be advised to avoid the time, work, and expense of becoming a nonprofit, especially if they have succeeded without that classification.

For organizations interested in moving toward new funding sources, the following identifies the necessary steps to become a nonprofit:

1. File with the Secretary of State of South Carolina to be incorporated as a nonprofit organization in the State of South Carolina. This is a necessary step, but your group will only legally be a nonprofit upon IRS certification.

When a group applies to the State to be incorporated as a nonprofit, the State will ask for Articles of Incorporation and financial information. Incorporation filing fees total about \$25, followed by an annual fee of \$50 to maintain nonprofit corporation status. To ask for instructions and forms required to establish a nonprofit corporation in South Carolina, contact the Secretary of State:

Charities
Office of the Secretary of State
PO Box 11350
Columbia, SC 29211
(843) 734-1790
www.scsos.com/Public_Charities

2. Next, your group must apply for a federal employee identification number (EIN) from the IRS. This can be obtained by asking the IRS for a copy of form SS-4, filling it out, and sending it back in.

3. Once your group has an EIN, you are ready to apply for tax-exemption to be recognized by the IRS as a nonprofit organization.

There are several different “types” of tax-exempt, nonprofit organizations, each with its own code number. Most code numbers begin with “501(c)”, and then a number. Most foundations and corporations are legally allowed to give only to non-profit organizations that are designated as “501(c)(3)” by the IRS at <http://www.irs.gov/formspubs/lists/0,,id=97817,00.html>. Charitable donations cannot be given by most foundations and corporations to groups designated “501(c)(6)”, for example. Being classified by the IRS as a “501(c)(6)” means your group is considered a Chamber of Commerce or other business-related tax-exempt nonprofit organization-- and these don't always operate for purely charitable purposes. Getting an IRS designation of 501(c)(3) testifies that your group operates for purely charitable or educational purposes and that donors to your organization can claim a full deduction.

The form to fill out to get recognition as a 501(c)(3) non-profit, tax-exempt, charitable organization is Form 1023, available from the IRS. It isn't easy to complete -- a lot of planning and paperwork must be done before you even start in order to answer all the questions. Many groups hire a lawyer or a private consultant with experience to do this for them. Finally, keep in mind that the IRS often charges between \$150 and \$500 for your application to obtain 501(c)(3) status to be considered.