



## NONPROFIT ENTITY OVERVIEW

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There are at least two (2) steps necessary to establish a nonprofit or tax-exempt organization, also commonly referred to as a “501(c)(3)”:

- Step 1: Formation of a nonprofit entity (usually a corporation) with the Georgia Secretary of State; then
- Step 2: Application to the IRS for approval/award of “tax-exempt” status.

Please note:

- *Merely establishing a nonprofit entity or corporation with the Secretary of State is not a grant of tax-exempt status.*
- *Until or unless your nonprofit organization has applied for tax exemption (through IRS Form 1023) and has been granted such by means of a written “Award Letter” from the IRS, your organization is not tax-exempt.*
- *Without an “Award Letter” or grant of tax exemption by the IRS:*
  - Your organization is NOT entitled to an exemption from payment of federal income tax.
  - No donation to your organization is “tax-exempt” or may be “written off” as a charitable deduction.
  - Your organization should not solicit donations by advertising or promising tax-exemption or a “write off” to donors.
- *There are stiff fines and penalties (and possible imprisonment) for misrepresenting your entity as being “tax exempt” when it is not.*



### OUR FIRM'S NONPROFIT PROCESS & PROCEDURES:

- Provided that you cooperate with us in supplying basic information about your entity, such as the organization's name, address, officers or board members, our office usually can complete Step 1 shortly after being retained.
- Step 2 however, may be considerably more time-consuming and requires significantly more information and input from you. Unless you qualify for the IRS short form (under \$50,000 in annual gross receipts and \$250,000 or less in assets), there is a lengthy IRS application that must be completed, in which you must answer detailed questions and provide narrative about the structure of your organization, the way in which it will operate, your projected annual budget and the sources and uses of funds. (IRS Form 1023— <http://www.irs.gov/pub/irs-pdf/f1023.pdf>). Overall, you must demonstrate to the IRS that your organization is organized for a *public, charitable purpose* that merits exemption from tax.
- While we will assist you in completing the tax exempt application and submitting it to the IRS, it is critically important that you provide the information to enable us to do so. Ideally, you should have a general idea about the purpose, structure, design and operation of your entity. If you have not yet given much thought to this we encourage you to do so before engaging our services; otherwise, a considerable amount of time will need to be devoted to determining these particulars before we can begin the application. We have attached a questionnaire designed to help you organize your thoughts in these areas.
- Finally, please be aware that *the IRS is solely in control of the grant or denial of tax exempt status*. In many instances, the IRS examiners may require additional information from you in order to make their determination.



## NONPROFIT QUESTIONNAIRE

Your responses to the following questions will help us determine how to assist you/your organization in gaining tax-exempt status:

1. Have you registered as a “nonprofit entity” with the Georgia Secretary of State?
  
2. State the “exempt purpose” of your organization.<sup>1</sup>
  
3. Please provide a succinct description of the charitable *activities* in which your organization will engage that relate to or will carry out the “exempt purpose.”
  
4. Is your organization to be a subordinate of an organization already covered by a group exemption? [Example: new Red Cross chapter.]
  
5. How will you deliver your services and to whom? (identify the specific group or groups that your organization exists to benefit.)

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<sup>1</sup> “Exempt purpose” means a religious, educational, charitable, scientific, literary, testing for public safety, fostering amateur sports, prevention of cruelty to animals/children purpose. Each term is “specially defined” by the IRS. For example “**charitable**” means relief of the poor, distressed/underprivileged; advancement of religion; building or maintaining public buildings, monuments or works; lessening the burdens of government; promotion of social welfare; “**educational**” means instruction or training of the *individual* to improve or develop his capabilities; or instruction of the *public* on subjects useful to the individual and beneficial to the community.



6. Explain how your organization will fund its operations.
  
7. State how your organization will be structured, and identify the persons who will lead the organization (i.e will you have an executive director? Will your organization have members? Employees?)
  
8. If your organization has not yet been formed, provide a projected budget of the organization for its first year. Be sure to identify the sources of anticipated revenues and expenses.
  
9. If your organization is already in existence, provide a summary of the organization's budget for the last three (3) years. Be sure to identify the sources of all revenues and expenses.