Common 501(c)(3) Rules and Regulations

The government recognizes that charitable and certain other types of organizations provide valuable community services that would be impossible for the government to provide using taxpayer funds. While the government can't fully support nonprofit organizations, the 501(c)(3) code of the IRS classifies them as tax-exempt.



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.

Requirements to Maintain 501(c)(3) Status

- [ ] **Private benefit.** Organizations that apply for tax-exempt status must fit one of the applicable purposes for a nonprofit organization. Corporations may not have intent to profit, so they can't privately benefit any person or entity. A nonprofit can employ people for pay as long as

- [ ] Nonprofits are not allowed to urge their members to support or oppose legislation. They may participate in a small amount of lobbying, but **lobbying activities** may not exceed a certain amount of the organization's total expenses.
- [ ] **Political campaign activity**. A nonprofit organization may not financially support or endorse any political candidates verbally or in writing. They may not oppose candidates either. This rule applies to candidates at every level — local, state and federal.
- [ ] **Unrelated business income**. Nonprofit organizations aren't allowed to generate too much income from a purpose that is unrelated to the nonprofit. An organization that regularly operates a trade or business that is unrelated to the nonprofit and makes significant contributions to the organization would need to pay taxes.
- [ ] **Annual reporting obligation.** Nonprofit corporations still have reporting responsibilities, like the Form 990. They may also be responsible for things like tax on unrelated income, employment tax, excise taxes, and certain state or local taxes. Churches and other church-related organizations don't need to report income.
- [ ] **Operate in accord with stated nonprofit purposes.** An organization that makes a big shift from being unprofitable to making money needs to re-file as a for-profit entity and to pay the applicable taxes.

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