
Nonprofit Law Resource Library

Starting Up: Nonprofit & Foundation Basics – Starting a Nonprofit Organization

Starting a Nonprofit Organization

The process of starting a nonprofit organization generally involves:

1. [drafting bylaws](#) which sets forth the structure of the organization and creates a governing board with final authority for the organization,
2. [incorporating as a nonprofit corporation](#) in the state of choice,
3. [obtaining tax-exempt status](#) from the IRS and the state in which the organization is based, and
4. [completing additional documents](#) relating to state compliance, annual reporting requirements, newly instituted IRS compliance policies, and sound corporate recordkeeping practices.

When we are asked to assist a client in establishing a new organization, the specific process usually involves:

Developing bylaws and a board of directors. After discussion with the client regarding the purposes of the organization, options for structuring and comprising the board of directors, and basic operational and administrative mechanisms, we will draft the bylaws and an explanatory memorandum which outlines the most important points. A key, often-overlooked, point of emphasis is the composition of the board of directors. In particular, it is important to carefully select the initial directors and determine the manner by which future directors are selected.

Incorporation. In most states this is a relatively simple procedure. The Articles of Incorporation generally include a number of the provisions already set forth in the bylaws.

Obtaining tax-exempt status from the IRS. The application and follow-up responses to the IRS are the most time consuming part of the process. Generally, the two substantive pieces of information required by the IRS are:

- A statement of activities detailing, as specifically as possible, the proposed activities of the new organizations.
- Estimated budgets for three years.

Obtaining income and sales tax exemptions and completing charitable registration in the state of incorporation.

For specific state and IRS filing requirements, please check under your state in the [state-by-state filings, compliance and statutes section](#) of this online resource library or our [site index](#).

Developing mandatory and recommended policies to meet the requirements of the Internal Revenue Code.

Documents include compensation, conflict of interest, document retention and whistleblower policies.

Further advice regarding:

- Creating a Board Meeting Minute Book and other corporate record keeping practices.
- Risk management and insurance.
- Contracts and relationships with third parties.

Once this process is complete, legal questions often arise in such areas as: maintaining tax exemption, governance and board procedures, liability concerns, licensing and protecting intellectual property, charitable contributions and donor relations, employee matters, contract/grant review and drafting, and real estate leasing and purchasing.

We are pleased to provide counsel in each of these areas as newly established organizations grow, and look forward to developing and maintaining long-term relationships with our clients.