

Module 2 Transcription

Intro:



Okay, welcome everyone to module. Number two could be for some of you guys, you can skip this depending on where you're at with your nonprofit journey. If you are, if you are just starting. You definitely should be watching this. It could be that it's a good refresher for you, even if you already have one or it could be that you already have one, but you missed a couple of important steps

in module number two, we're going to be talking about the technical and legal things that you need to know to have a 501C3. For full clarification. I am not a lawyer. I'm not an accountant. I am not a bookkeeper. I'm not certified to be any of those three things. I'm giving you what I've learned and I've spoken to lawyers, accountants, and bookkeepers to create this module, but I highly encourage you.

If you have any questions to check in with your. Bookkeeper, accountant or legal consultant.

And if you are in need of a good one you can definitely turn to me,

and in some of the notes, I'll write some of the recommendations that I have for lawyers, bookkeepers and accountants.

All right, here we go. So the first thing you're going to want to do this is actually a fun part. Is pick the name of your organization. We have not discussed that till now. It could be, you've already thought about it. But you're now, and now it's time to pick the name of your organization.

Mine was shopping for seniors. And so I'll want to go online and make sure shop shopping for seniors. Dot com or.org is ready. Dot com is typically for business. Dot org is typically for Oregon. Organization org for organization. If you're a Latina different country, you might you'll check the domains for that country.

And Israel you'll check. Dot O R G I L a and I'll put some links below where you can check out domains. There's go daddy there's domain sites that are specific for your website, for your country. There are domain sites that are specific for a URL ending like mine. This is non-profit navigator.pro.

And so I don't remember right off hand where I went from that website. I think it actually was GoDaddy, but I looked at other websites for a dot course. There was a specific domain website that I went to to look for at dot course. And so just do a little bit of Googling. And you will find your answers.

All right. Let's now talk about what if 501C3 is.

501c3 and DAF's

📌 📌 Welcome to module. Number two, this is: Yigal Segal, how are you okay. Maybe something a little bit more enthusiastic.

All right. Well, so great to have you here. We have a couple of questions for you. So first of all, what is a 501C3?

And why is it important for a nonprofit. The 501C3 is the IRS designation of a nonprofit. So if you do not have 501C3. Designation from the IRS. You are not allowed to officially raise money as a nonprofit. You are not a nonprofit. A nonprofit is only defined by being under 501C3.

📌 So you're saying. If I fundraise money, if I say, Hey, Bob, my good friend. Can you donate money to me to my cause until I have a 501C3, he's just giving it to my personal bank account and trusting that I'll use it for the cause.

Bob loves you, right? Okay. And. He doesn't care about getting a tax deduction. So then he'll give you money. The, the whole idea of of a 501c3 is that legally you can receive a tax deduction. From the IRS. Legally, you're not allowed to give her a seat. Unless you're a 501c3

So what they did was around 20 years ago, they created something called the 1023EZ, which, basically. Is for a non-profit that over the first three years of his existence, it won't raise more than an average of \$50,000 a year, so, which means that if the first year you raised 75 and the next year you raised 25. So then you're still under that \$50,000 average. And basically the easy application can take. It's a two-step process. You have to incorporate as a business, as a nonprofit corporation. And then you. Apply for the C3, the.

Process can take anywhere from four weeks to eight weeks , to months. I mean, I have a couple that are still pending that are. Seven eight months old. Most of the time , in my business, when I, put in the applications. It takes. Around two months from beginning to end. Uh, huh. Okay.

So what does one need? Let's say I'm deciding to open up my nonprofit. I say, I want to give a tax deductible receipt. What do I need in order to actually open up a 501C3? So you're saying I need to fill out. The 1023EZ,

ok first things first. You have to be incorporated. So what does that mean to be incorporated?

So whatever state you decide that you're going to base yourself in, let's just use New York as an example. You would, go to a lawyer or go to someone like me who uses the lawyers who work on this stuff. And you would apply to be a corporation in New York. In order to apply to be a corporation, most states require that you have three board members, and that you have, mission statement, like a sentence or two of what your plans are like. And address. The three board members by the way, have to have. Legal USA addresses.

They don't have to live there, but. Legal us addresses. Okay. One of the board members has to give in their social security number in order to get what's called an employer identification number. (an EIN).

Which is basically your social security number for your 501c3. Okay. And then you incorporate, usually it takes a week. And that's the first step . And then you can do the 1023EZ.

Now there's two things that you have to know.

Number one as a, as a nonprofit, the IRS allows you to issue receipts for donations from the minute that you apply. Oh for non-profit status, not from the minute that you actually are approved. Because if you apply in. July 4th. From July 4th, you can issue receipts as a nonprofit because the IRS is expecting you retroactively to be approved. If you were approved in August.

Great. And you still were able to give donation receipts from donations that you got here. And since banks usually just need articles of incorporation, which is what you're going to get from New York state. in order to open an account so you can open a bank account. And that. Go from there to, to start soliciting funds.

The problem that's developed over the last couple of years is with what's called donor advised funds a DAF (Donor Advised Funds)

donor advised fund. Is basically where a person. Is giving out. A thousand, let's say a thousand different donations a year because they're very philanthropic. That means they have to get a thousand different receipts from a thousand different organizations. Um, Obviously, if someone's getting to a thousand different organizations, they're very nice people. Order to avoid that, (needing to get 1,000 receipts) they go to someone and the most popular one that everyone knows about is fidelity, charitable, but there's Schwab there's. And he's now in the Jewish world is the donors fund.

There's also an app called Daffy that a lot of people use, and that is what the, they. They do give money to Daffy. You give money to Daffy at same idea.

Let's say you give a million dollars to fidelity and you, and then you tell fidelity.

Okay. Mr. Fidelity, I want you to give a thousand dollars to a thousand different places. The part of fidelity that's the charitable is, is officially a nonprofit. So when you gave the million dollars to fidelity, Then you already gave your donation. You have donor advised fund means that you have the ability to advise them now.

Oh, I gave you a million dollars. Give a hundred thousand to Akiva, give a hundred thousand to this guy, etc. The donor advised fund will not give any charitable donation to anyone except the 501(c)(3) approved. Right. And they decided on their own will not give any donations to someone who does not have the actual letter from the IRS that they're approved. So even though the IRS itself. Allows you to, to receive donations from the moment that you apply. If you're not approved right away. And it takes two, three months, whatever it is, you are not allowed to get money from a DAF. Until you actually have the letter from the IRS.

Got it. Okay. So it's two things. One is that the moment you apply, you can already get, give out receipts. And number two is that a while you can give out receipts, you can't yet get money from a DAF. Until you've actually been approved.

Right. My question is yeah. What happens if you don't get approved retroactively or what happens to those receipts? Is it okay? Very good question. Thank God. I don't know the answer. Practically. It's never happened to me, but what I assume. Yeah. Is that any receipts that you gave out, let's say you gave out 10 receipts. And then you find out from the IRS you're not approved.

Okay. So then you would have to ask those donors for the receipts back. Or make sure they destroy them. Cause they are not allowed to use them, as part of whatever tax, benefit they want to receive. Okay. Amazing. Thank you.

The IRS has two tiers of reports that you must file every year. The Tax return for the, for a nonprofit it's called a 990 okay. The 990 form is basically the 1040 form that we know is personal, taxpayers. for non-profits. The 990 has, has a few levels. Okay. But the main two levels are what's called a 990 postcard, and then a regular 990, a 990 postcard is filed every year for an, for a charity that raises under \$50,000. It's a very simple process.

If you raise \$50,001 you have to graduate to the next, the regular 990.

Got it. And for that, you need an accountant who will go through it with you. And that's a separate discussion.

Amazing. Well, thank you very much, obviously, as you can hear there's a whole lot of different pieces to this, Yigal does this for a living, as you, as you heard, he does hundreds of these.

And so if you're ready to open up a 501c3, you can try to do all of these yourselves. And it, there is a lot of different forms online. It can get very complicated. And if you want, you can hire Yigal. We're going to put his information down below. And, um, thank you. You're welcome.

But remember also besides the actual filing to become a 501c3. You have to know the steps that need to be taken once you are a 501c3 in terms of keeping the proper books and following the right forms every year and most important, most important. Is giving out charitable receipts and exactly what language the IRS wants to see in the receipts.

In terms of what we're discussing, there's a certain level. Of information that you need in order to begin to start a 501c3 so that's a mission statement and a board. Right. The board and again, a short mission statement.

If you hire someone like me, all that is part of the package. You have to incorporate, and then you have to apply to the IRS.

Banking from overseas

📍 📍 Once you are finished. Then you have to find the right bank. we're, we're sitting here in Jerusalem. So for us. opening a bank account is, is, is something which a little more difficult than it is for, for anyone who's watching this who's in America because basically if you're in America, so you take the. Incorporation documents that someone like me or your lawyer, whoever it is, does it for you or you do it yourself,

and take the incorporation documents, go to the bank, whichever bank you choose and open up a bank account. Everything's great.

But what happens if you're in Israel, which, you know, some of, some of the clients that Akiva's dealing with. Are going to have this issue. So the answer is, there's three possibilities.

The first possibility is that one of the board members that you have in the states actually does live in the states. And therefore. Can hopefully go for you and, you know, be the treasurer of the organization and open up. You know, as long as they're on the, the documents, right. They're one of the three people, they can open up the account and they can sign on the account.

And then eventually when you, the head of the organization, if you live in Israel, Eventually when you go to America. You know, it's for whatever reason. So then you can sign on as a signer as well. If you feel a need to, but now most of banking is done online. So it's not really the necessary. That's number one.

Number two is, that there are online banks. The one that I succeeded with was in something called BlueVine.

It's just a bank that's online. So you can send them the documents and they'll open up an account for you.

Banking from the states

📍 Now I tell my , because besides the business of, of. Of opening up 501 C3. I also manage a nonprofit and their bookkeeping and stuff like that. So I encourage them to go to banks, like bank of America, chase banks that are a little more, established. They have Zelle.

A lot of the online banks do not have Zelle and Zelle is a very big thing. Now people want to Zelle you money. They want you to sell them money. They people want instant stuff, you know?



Having a separate bank account

📍 📍 You can always go to have a separate account just to keep things separate, like a hundred percent. Yeah. You should never have it with the personal cam for short. Personal account non-profit account. Yeah. I mean, I have clients who have a business account. For their, for their profit business. Right. But they opened a second account, right? Again, you always have to keep it separate.

It's two different things. Yeah. That's it. Thank you so much. Again, information is down below. If you were looking for someone to set up your nonprofit, do the bookkeeping, make sure everything is in order. This guy.

Do I need a 501c3 to begin?

📍 📍 📍 📍 📍 Alright, the short answer is you do not need a 501c3 to start. like we had just said, you need a 501c3 to send receipts. And if you're going to be raising even three, four,

five thousand dollars, which you are, it is very wise to have it. But let's say it's just not something you want to get started with right now.

So there are a couple of options for you, to do. 📌 Number one, if you want to, if you don't want to hire someone to make the 501c3 for you, it can cost you a lot less. maybe even just a few hundred dollars, five, six hundred dollars. But it can be a complicated process and, it might not be the wisest move depending on, again, how much time you have.

Maybe you have an accountant who can help you out or a lawyer who can help you out. And so there are cheaper ways to do that. That's number one.

📌 Number two is, let's say you just don't have the money right now to open up a 501c3, you can either loan the money to your nonprofit or have someone else loan the money to your nonprofit.

And then once you raise that money, have the nonprofit pay you back or pay that person back. That's another option.

📌 Number three, which is most often is people will give to directly. Many people, are not looking for a tax deductible receipt.

Think about the times that you've given charity over the past. How many times have you asked for a tax deductible receipt or use that tax deductible receipt? Even if you got one, if people are trusting you and it's, you know, we're talking about smaller donations and a few hundreds of dollars or for some people it's a few thousand dollars.

They're not particularly looking for that tax deductible receipt, and you can raise enough money in the beginning so that And it's just really just coming to you, and you'll have a separate bank account of course for it But if people trust you then that's an option for you as well

📌 Now there is another more formal option, which is called a fiscal sponsorship.

What is a fiscal sponsorship? A fiscal sponsorship is when you are starting, let's say, your own non profit, you can work with an existing non profit that already has 501c3 status. So that might be, let's say, your local synagogue, or that might be a local school, or it might just be a local organization that does similar things for you.

And they'll say, listen, you know, we love what you're doing. We think that it's, great, really important, maybe different in a certain way. And we want to support you by having your donors be able to write their checks to our organization. Let's call it the Bob Smith High School. People write checks to the Bob Smith High School.

The Bob Smith High School will give them their tax deductible receipt, and then the Bob Smith High School moves that money over to your separate bank account, for you to run your own non profit. And that way, you, they're still getting a tax deductible receipt, and the Bob Smith High School is above board.

Everything is above board. There are organizations that do this. They typically take a 5 percent tax deduction. cut in order to, this is how one of their ways of having a revenue stream and, to pay them for their time. so you can find someone local within your community or your space that you're doing this in.

Or if you'd like to reach out to me, I know some people who do this as well.

How to write a receipt

📌📌📌📌📌 Okay. This might be the shortest module ever. Make sure that you run this by an accountant first. but we have written up for you the standard language for your receipts. In addition to all the thank you's you give to your donors, make sure. that they get a receipt. If they're looking for a tax deductible receipt, you can see below some of the languaging that we put for you.

And that's it. Just make sure to do it. It's really important.

Nonprofits in Israel

📌📌📌📌📌 Okay, this class is about starting a non profit or running a non profit in Israel. So if this isn't relevant to you, you can totally skip this one. Okay, in order to open up an amutah in Israel, it's a fairly simple process. You're going to need a lawyer to sign off on the document that says that you're going to now be an Amutah.

We are putting the information to a great Amutah lawyer, Simon, below, and he'll, he's ready to help you as well at a discounted rate for anyone coming through Nonprofit Navigator and he'll be able to answer any questions you have as well. It will cost you 907 shekel to open an amutah. There is an additional 166 shekel yearly fee that you have to pay to keep that amutah open. Additionally, again, depending on how much money you're coming through, you might want to have an accountant for that process.

And that's something you can discuss with Simon. So you're going to need a board. This board consists of at first, two board members. And that's when you, that's all you need to get that amutah status going. Then additionally, after that, they're going to ask you for another five board members. So total seven board members. altogether. That's going to help you in order to get something called Seif Arbaim B'sheish, Seif 46.

And that is a special clause that is going to then become relevant to your nonprofit, that will allow you to give tax deductible, tax deductible receipts. And so in America, it's a very quick process. In Israel, it can take, it does take a couple of years. to be able to give those tax receipts out.

People can still make donations beforehand, but they won't be able to get a tax deductible receipt. . And there's a few other items that you're going to need to make sure to check off as you go through that two year process. Again, you do have two years, so it's not something that you need to do so quickly.

And that's something that I highly encourage you to speak with Simon or any other lawyer that you might be close with just to make sure that you're hitting all of those boxes. But like we saw in the last. video. You can start right away. You should start right away. You should not be waiting two years, in order to get this status.

Additionally, like we had said in the last video, you can, , use the fiscal sponsorship idea for your first couple of years being underneath someone else's amount to get the ball rolling.

Board and Bylaws

📌📌📌📌📌📌 All right, now this one is pretty important and we are talking about your board. So there's two aspects to the board over here. I'm going to talk about the legal technical aspect for a second and then we're going to talk about actually utilizing your board.

📌📌 In terms of the legal technical aspects in America, you need three board members to be on your board and that is the president, the vice president, and the treasurer.

And these are really just titles they can really be anyone. It can be your cousin. It can be a good friend. Like we discussed earlier, one of them is probably going to need to do a little bit of banking if you don't live in the States. And so, that can really be anybody. And so that's getting the technical aspect out of it.

📌📌 However, there's also the concept of actually having a board for your non profit. And a board is a, oftentimes I find, overlooked resource. It really is an overlooked resource and we're

actually going to get a little bit into fundraising here because your board, and these might be these three people that are on the legal documents of your board, or those might be three people that you, you know, just had signed off and a few months later you're creating a actual board that's actually going to do some work.

You might call it the board, you can call it an advisory board, you can call it a fundraising board, you can really do anything you want. There's no restrictions to that. And so this board can be really important because they are your advocates in a lot of ways.

These are the people who you're handpicking, who you're saying, hello, so and so, I'd like you to be on my board because I'm building.

Let's go with shopping for seniors again. And I, I choose. I'm choosing my board for shopping for seniors. So who do I go to? I go to a local supermarket owner. And I say, Hello, Mr. Smith. I'm opening something called Shopping for Seniors. Here's what the non profit does.

We're helping, you know, older people enjoy their, their, their, their elderly years in a dignified way, etc, etc. I'd like you to be on the board. Wow. He'll feel so honored. He'll feel so amazing about it. And that's obviously a person I want to have on my board because they're in a supermarket business.

They know people. They have connections. They might even be able to you know, get some free food at some point, you know, whatever that might be. And so the board members can be and should be a very powerful resource under your belt. A very powerful resource for your nonprofit. Now there are, we're going to talk about the three W's of a board and we're going to talk about bylaws.

📌 📌 So we'll start with the three W's of a board. Three W's of a board, you can Google this and watch some videos or read a little bit more into it are work, wisdom, and wealth. Okay, so those are pretty straightforward.

📌 📌 Work is the type of person who's on the board who's actually going to get things done.

Maybe you have someone, you just, it's essentially a volunteer, board members are not typically paid. So it's essentially a volunteer. And so let's see, you have, you have someone on the board who is maybe retired and has time that they want to really give it a passion about shopping for seniors, maybe because they had food scarcity when they were younger and they really want to give time in terms of calling the taxi companies and calling the supermarkets.

And that might be someone who falls under work another aspect of work might be connections, right? They might have a lot of different connections, maybe in this field.

📌 📌 Wisdom, they might also have connections, but these are people who are very knowledgeable.

Again, this might be, let's say, someone who you know across the country that also created a similar shopping for seniors. You really want them on your board because they're going to be able to bring a lot of wisdom and knowledge. And information to the table, that's wisdom.

📌 📌 And then wealth, of course, is someone who is wealthy and is on the board essentially to say, I'm here, I love this idea, I'm going to support this.

A lot of boards that I know oftentimes have one or two people on the board who are writing their five or six digit checks because they really believe they really believe in this in this product, in this nonprofit, excuse me.

📌 📌 Now in terms of the bylaws. What are bylaws? it's a document that you essentially write up that says, Here is what you receive from being a board member.

Here is what you need to give from being a board member. And here are the general rules about being a board member. I put an example for you down below. Here's a couple of things that you might want to discuss. for being a board member. One is, let's say, wealth, right?

Is there a certain amount that you have to give or get? It's called a give get for being on the board. Maybe you have a give get of 2, 500. You either give 2, 500 or you help raise 2, 500 from your friends a year. Perhaps everyone who's on our board is a give get of 2, 500. I wrote an example for you in the example, which says, There's no specific amount that you have to give. However, you are putting shopping for seniors as one of the top five places you donate to this year, and that way someone who is, you know, their largest donation in a year is a thousand. Let's say they give out \$5,000 a year to five different organizations, so you're one of them and you're getting a thousand dollars.

But let's say someone who's on the wealthier side, who's maybe giving 50,000 or \$5 million a year, you're on their top five and it, it helps them put you. As a priority for them and it helps you recognize, helps you as a nonprofit know that my board members are bought in. There are some other questions you might want to ask.

You might want to put in the bylaws or think about putting in the bylaws. Can they veto things? Let's say you have a board, you're having a board meeting and you say, I want to pivot from shopping from seniors to shopping for people who have been in an accident and can't walk.

And the board, and, and you really are passionate about this and you think there might be funding for it. Can the board veto that idea? Is that a, is that a you as a director decision or a board decision? The board says, nope, we voted on it and we decided we want to stick with seniors. That was our original mission statement.

That's an important piece that you might want to discuss in the, in the bylaws. Right? Who, in terms of hiring people or firing people, does the board have any say? And maybe they are very much part of the decisions, or maybe not at all. Right? Do they have any say in the budget? Are there any voting rules?

How are decisions made? Is it a majority? Do certain, do, to, to fire people, do you need it to be unanimous? So these are some important questions. How long are board members on board? It's good to get some new faces in, some new people in. On the other, on the other hand, you don't want it to be too, too quick because then board members can't be fully invested.

So, are they there for two or three years? Within your board, are there different roles or committees, right? You might have a larger board, or we have a couple different people in different committees. That might be an educational committee, a marketing committee, a fundraising committee, it might be a hiring committee, right?

It might be a networking committee. There's a lot of different things that you might think about, and these things can evolve, of course, as your non profit evolves. Adding and taking away board members. Is that something that the board is involved in? How often are the meetings? Are there You don't want them to have them too often and not too long. And meetings should have an agenda and be very clear before the meeting what you're discussing about. These are people who are typically busy and, and are giving of their time to you. They're volunteer and you really want to show them respect.

For their time, of course, you can also give them gifts throughout the year, but you really want to respect their time at these board meetings. And that should be a very clear and thought out agenda. And how often? Is it on Zoom four times a year? Is it in person twice a year? You know, what are you doing with that?

Additionally, are board members involved in planning ahead and planning your organization? I would assume so, but that's something you want to think about too.

And finally, and arguably the most important part of having a board is the idea of accountability and transparency, right?

You, In theory, you could do whatever you want if you were just the only person on your non profit and you could, God forbid, embezzle money and that would be a bad thing. Don't do that. So you have a board who are essentially these three impartial people who are ensuring that it's accountability for all the dollars going in and all the dollars going out.

And there's a transparency piece over here that they see it and that and that you are being ethical and wise with your money. And so it's very important to have a board think about who is going to be, again, If you're just starting your non profit right now, I would offer that you might

not know immediately as you're starting this technical, legal 501c3 process who that advisory board is going to be.

And so those, those three people might just be people who know you and trust you and will sign up in the IRS documents and you might build that board out at a later date. Again, if you can have those three people who are also passionate about the, the, the project, even better.

• • • • • You might also want to have your board members receive things, perhaps your board, your board members receive special invitations to events, or they receive, , a yearly getaway altogether as a board. Or maybe in shopping for seniors, they would receive, a speaking opportunity at our, you know, semi-annual gala, whatever that might be.

Obviously they know they're coming in as volunteers and they're not really receiving anything. What they're receiving is the opportunity to give back in a very significant and impactful way, but there might be some, you know, if you're having events or if you're having, opportunities where there's engagement with your participants, there might be some nice ideas where they're receiving Unique VIP.

Interactions.

• • • • • And with that we sum up module number two.

I will see you in module number three.