

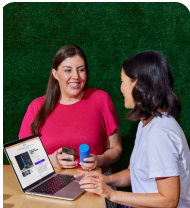


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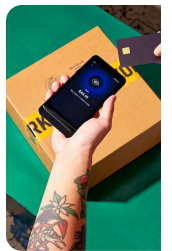
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## How To Start a Nonprofit in 12 Steps

by Shopify Staff

Updated on Dec 19, 2024



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On this page



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Starting and running a nonprofit is a meaningful way to build a business while making positive change in society. But beyond your vision for creating impact, you'll need to handle some complex logistics at first.

Getting your nonprofit corporation off the ground means gathering documentation to prove your organization benefits the public and deserves tax-exempt status from the federal government. Once you complete the initial requirements, you can focus on fundraising, building your team, and advancing your mission.

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## What is a nonprofit organization?

A nonprofit organization serves a specific cause or community rather than generating profits. Instead of distributing earnings among shareholders, nonprofits reinvest extra funds back into their mission. This can involve providing services, selling online via an online store, supporting advocacy efforts, or funding research.



Learn: Nonprofit vs. Not-for-Profit: What's the Difference?

## Benefits of starting a nonprofit

Starting a nonprofit gives you several key benefits:

- Federal tax-exempt status means no federal taxes on income
- Eligibility for local and state tax exemptions
- Ability to receive donations from individuals and organizations to fund activities
- Access to grants from government agencies and foundations

However, there are important requirements. Nonprofits must operate for public good, not for private benefit. You need to hold regular board meetings, reinvest profits into the organization, and maintain detailed financial records to keep your tax status.

# What to consider before starting a nonprofit

Give your nonprofit the best chance of success with these considerations:

## Legal requirements

You need to formally incorporate your nonprofit in your state to protect you from liability. Research your local regulations before you begin, since requirements vary by state.

## Board selection

Nonprofits run on trust. Choose board members who commit to your mission and bring diverse skills. Plan how you'll handle potential conflicts of interest before they occur.

## Financial planning

Consider how you'll fund your initial operations through personal investments, seed grants, crowdfunding, or individual donations.

## Strategic planning

Beyond paperwork, plan how your nonprofit will function. Your decisions should support your core mission while being strategic about resources.

## Compliance

Understand compliance laws in your state and research how and when you need to report taxes.

## How to start a nonprofit in 12 steps

Starting a nonprofit requires more than just passion for your mission. You'll build your organization step by step:

1. [Build a solid foundation](#)
2. [Create a business plan](#)

3. Pick a name
4. Choose your structure
5. Officially form your nonprofit
6. Get an EIN and open a bank account
7. Appoint a board of directors
8. Draft the bylaws and conflict of interest policy
9. Start fundraising
10. Build a team
11. Launch your nonprofit
12. Start marketing your nonprofit

## 1. Build a solid foundation

Start by identifying the community or demographic your organization will serve. Support your mission with population data that shows the need for your organization.

Your mission statement will guide your nonprofit's efforts and help your team make important decisions. Create a mission statement that:

- Clearly explains what your organization does and what cause it advances
- Stays brief and easy to understand
- Can evolve with your organization's goals

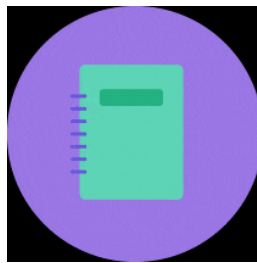
## 2. Create a business plan

Your nonprofit business plan helps you understand your potential income and ability to cover expenses like marketing, employees, and leadership roles. It also shows how much you'll need to rely on donations. Include:

- Executive summary: Describe your mission, market analysis showing community need, and how you'll meet that need.
- Offering: Detail your services, programs, or products and your impact goals.
- Marketing plan: Outline how you'll spread the word about your nonprofit's work.

- **Operating plan:** Describe your day-to-day operations, organizational structure, and role responsibilities.
- **Financial plan:** Include cash flow statements, balance sheets, income statements, budget, revenue streams, startup costs, and operating expenses.

Research existing organizations to avoid duplicating services. You'll compete for donors and grants if you share another organization's mission. Use the National Council of Nonprofits [locator](#) to explore US organizations and ensure your mission is unique.



### Free: Business Plan Template

Business planning is often used to secure funding, but plenty of business owners find writing a plan valuable, even if they never work with an investor. That's why we put together a free business plan template to help you get started.

[Get the template now](#)

## 3. Pick a name

Choose a distinctive name that connects to your mission and activities. If you need help choosing a name for your own nonprofit organization, try [Shopify's business name generator](#) to inspire ideas.

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## 4. Choose your structure

The IRS approves and regulates nonprofit tax-exempt status, recognizing about three dozen types of nonprofit organizations. These range from general charitable organizations to specialized trusts for coal miners and teachers' retirement funds.

Not all nonprofits are exempt from federal income tax, and not all types can offer tax deductions to donors.

Five common types of nonprofits:

### 501(c)(3): Charitable organizations

These organizations serve the public good through religious, educational, charitable, scientific, or literary work. This category includes public charities, private foundations, and amateur sports organizations that create national or international competitions.

A 501(c)(3) can also act as a fiscal sponsor to support charitable projects. Donations to these nonprofits are tax-deductible.

### 501(c)(4): Civic leagues and social welfare organizations

These organizations focus on community improvement and social welfare, including community service organizations, homeowner associations, civic leagues, and advocacy groups. They can engage in political activities that support their mission.

### 501(c)(5): Labor and agricultural organizations

Labor organizations represent workers' interests and collective bargaining, including unions and agriculture organizations. Contributions aren't tax deductible.

## 501(c)(7): Social and recreational clubs

These organizations focus on pleasure, recreation, and other nonprofit purposes for their members, like country clubs, hobby clubs, sports clubs, or fraternities. Contributions aren't tax deductible.

## 501(c)(9): Employee beneficiary associations

These organizations provide benefits like health insurance and pensions to members, typically limited to employees from specific employers or groups.

# 5. Officially form your nonprofit

After making foundational decisions and drafting key documents, you'll need to incorporate your tax-exempt organization. While state requirements vary, you'll generally need to:

- File articles of incorporation with your organization's name
- Include contact information for board members
- Choose your legal structure (nonprofit corporation, LLC, or partnership)
- Submit paperwork to your state's secretary of state office
- Register for charitable solicitation in your state and paying filing fees
- Apply for IRS tax exemption

File IRS Form 1023 (the "long form") for tax-exempt status. Smaller organizations projecting less than \$50,000 in annual gross receipts may qualify for Form 1023-EZ. After approval, you'll receive an IRS determination letter outlining your rights and responsibilities.

# 6. Get an EIN and open a bank account

Get your employer identification number (EIN) through the IRS's SS-4 form online, by mail, or fax. Then open a bank account using your EIN and organization details.

According to NerdWallet, top banks for nonprofits include:

- LendingClub: Best online bank
- US Bank: Best brick-and-mortar bank
- Bluevine: Best non-bank option

- Live Oak Bank: Best checking and high-yield savings bank

## 7. Appoint a board of directors

Your state's laws and organization's bylaws will determine your board's size and composition. Most boards have between three and 31 members, with most being independent (not affiliated with your organization).

Your board members will hire and supervise the executive director, approve budgets, and make sure you stay true to your mission. Once you have potential candidates, your organization's members need to vote on them.

After seating the board, you'll elect officers—president, vice president, secretary, and treasurer. These officers serve set terms (usually one year) to lead board meetings and carry out decisions.

## 8. Draft the bylaws and conflict of interest policy

Your nonprofit's bylaws describe how your organization will operate, make decisions, choose officers, and conduct board meetings.

Your conflict of interest policies protect the nonprofit by preventing officers, directors, and key employees from using it for personal interests. Make sure your board approves these policies and keeps them current.

## 9. Start fundraising

Your nonprofit needs a solid funding model and identified funding sources from day one. Without strong initial funding, you'll struggle to get your organization off the ground.

Consider these funding options:

**Grants:** While grants offer good startup funding, they're typically awarded based on specific functions, with grantmakers focusing on particular services or programs. Grant applications take time, and many are one-time awards.

**Startup accelerators:** Look into nonprofit accelerators that can connect you with investment, mentorship, office space, fiscal sponsorship, networking, and program development resources.



## 10. Build a team

Strong leaders drive successful nonprofits. Find partners who truly believe in your mission and bring valuable networks to support your organization.

Build a leadership structure with a full board of directors and executive director. They'll handle regulatory compliance, make high-level strategic decisions, and oversee key hiring. You'll also need dedicated paid staff or volunteers to carry out your mission.

## 11. Launch your nonprofit

Once you've secured your legal approvals and initial funding, you're ready to launch. But launching is just the beginning of your journey.

## 12. Start marketing your nonprofit

After opening your doors, you need to tell potential supporters about your work. Create a marketing plan that outlines how you'll reach stakeholders—donors, community partners, and others. Remember that different groups respond to different channels. For example, younger donors often engage best through social media.



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# Time needed to start a nonprofit

Starting a nonprofit takes time. The timeline depends on how quickly you organize your documentation and complete your tax exemption forms—this stage often takes several months.

After submitting your forms, expect to wait three to 12 months for an IRS decision. If your organization makes less than \$50,000 annually, you may qualify to file Form 1023-EZ for faster processing in two to three weeks.

## Getting paid as a nonprofit owner

Nonprofit owner compensation varies by organization structure. Owners typically receive a salary, stipend, or commission, and may qualify for benefits like health insurance and retirement plans.

## Start your new nonprofit today

If you're passionate about making change, [starting a business](#) with a purpose beyond profit can help you create a lasting impact. Begin by [choosing a name](#) and defining your mission, [register your organization](#), apply for 501(c)(3) status, and build your board of directors. Make sure you have the required [business licenses](#), then start making a difference in your community.

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### Read more

- [How to Start Dropshipping Coffee](#)
- [How to Buy a Profitable Online Business \(8 Best Marketplaces\)](#)
- [6 Creative Ways to Start a Business With No Money in 2024](#)
- [What Is a B Corporation? How to Apply for B Corp Certification](#)
- [S Corp Requirements- What to Know When Filing as an S Corp](#)

# Starting a nonprofit FAQ

## How do I start a nonprofit with no money?

Start by connecting with others who share your mission. Look for grants, financial assistance, and pro bono support from individuals or businesses.

## What's the difference between a nonprofit and a for-profit business?

Unlike for-profit businesses, nonprofits don't have shareholders. For-profits focus on generating shareholder returns, while nonprofits focus on advancing their mission.

## Is starting a nonprofit organization worth it?

Consider factors like time commitment, potential impact, and available resources when deciding if starting a nonprofit makes sense for you.

## What are the 3 types of nonprofits?

The main types are public charities, private foundations, and advocacy organizations. Each operates under different rules and regulations.

## How long does it take to start a nonprofit?

The process typically takes three to 12 months. Incorporating usually takes one to two months, while getting IRS tax-exempt status can take three to six months. Your timeline depends on preparation, mission complexity, and documentation requirements.

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**by Shopify Staff**

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