



THE NONPROFIT
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OREGON

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How to Start a Nonprofit in Oregon

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Nonprofit Startup Resources

<p>OREGON SECRETARY OF STATE (SOS) Nonprofit Startup Resources (Articles of Incorporation/Business Registration Info) Choosing A Business Structure</p> <p>OREGON DEPARTMENT OF JUSTICE (DOJ) Starting a Charity in Oregon ORS Chapter 65 - Nonprofit Corporations Rights, Roles & Responsibilities as a Nonprofit Officer Guide to Nonprofit Board Service in Oregon (pdf)</p> <p>INTERNAL REVENUE SERVICE (IRS) Compliance Guide for 501(c)3 Public Charities Form 1023</p> <p>FORMATION DOCUMENTS Nonprofit Formation Documents (NOLO) Nonprofit Bylaws & Samples (GrantSpace) Nonprofit Bylaws Template (Harbor Compliance)</p> <p>ADDITIONAL STARTUP RESOURCES SCORE Portland (Free Startup Business Planning) Writing a Nonprofit Business Plan (DonorBox)</p> <p>NAO BUSINESS MEMBER SERVICES FOR OREGON NONPROFITS Directory of Nonprofit Service Providers Attorneys/Legal Services Financial Service Providers</p>	<p>NAO RESOURCES NAO Nonprofit Resource Library NAO Nonprofit Resource Library – Starting a Nonprofit NAO Publications Oregon Nonprofit Corporation Handbook Oregon Funding Opportunities</p> <p>NATIONAL COUNCIL OF NONPROFITS Nonprofit Tools & Resources Boards and Governance Good Governance Policies for Nonprofits Financial Literacy for Nonprofit Boards</p> <p>BOARDSOURCE Board Service & Resource Library Forming the Nonprofit’s First Board Oversight & Accountability Structure, Committees & Meetings</p> <p>FINANCIAL RESOURCES (Wallace Foundation) Toolkits for Financial Management Budgeting, Cash Flow, Operations, Data & Analysis, Audit Readiness, Governance & Strategy</p> <p>CANDID/GRANTSPACE A Grant Checklist for New Nonprofits Legal Essentials of Starting a Nonprofit (Webinars)</p>
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Steps to Becoming a Nonprofit Corporation in Oregon

Being a nonprofit corporation is not the same as being tax-exempt. The nonprofit corporation designation is a matter of state law, while being tax-exempt is a matter of federal law. Although it is not required, if you are planning on conducting business in Oregon, you will need to become an Oregon State Nonprofit Corporation before filing for Federal Tax Exemption.

Overview of Steps

For further instructions -- go to [Oregon Department of Justice](#) website.

1. Decide on a Legal Form and Name the Organization

Charities typically take the legal form of a **nonprofit public benefit corporation**, although some organizations are established as trusts or associations. Other types of nonprofits include religious and mutual benefit corporations.

Organization Name – The name establishes its public identity and is important for incorporating with the state. Do a [Business Name Search](#) to ensure the legal name does not conflict with any other organization registered in the state.

Members or Non-members – Decide whether your nonprofit will have “members” – people with a right to vote on certain matters relating to the charities’ operation, in addition to the board of directors. Unless you intend to allow people other than directors to vote on certain issues, you should choose to be a “nonmember” corporation.

Board Officers & Registered Agent – You will want to begin recruiting the Board Officers. Nonprofit corporations are required to have a President, Secretary and Treasurer, and the same person may not fill all 3 positions. A registered agent will also need to be appointed that has a physical office in Oregon to receive legal notices.

[Board of Directors Roles & Duties](#) – NAO Nonprofit Resource Library
[What Is A Registered Agent](#) – Rational Unicorn Legal Services
[Nonprofit Registered Agent](#) – Harbor Compliance

2. Prepare and File Articles of Incorporation with the Oregon Secretary of State

[Registration Form](#)

To incorporate as a charity, you must file articles of incorporation for a nonprofit public benefit corporation. When you incorporate, you are establishing an entity that is legally separate from those who manage it. Articles of Incorporation may be filed by an attorney or any person involved in the organization that is incorporating. Your corporation must operate in accordance with the requirements of Oregon Nonprofit Corporations Act ([ORS Chapter 65](#)).

3. Obtain an Employer Identification Number

[Apply for EIN](#)

Before you submit your application for tax-exempt status to the IRS, you will need to obtain an Employer Identification Number from the IRS – also referred to as a Federal Tax Identification number. The EIN number is usually required to open a bank account in the name of the business.

4. **Develop Bylaws**

Nonprofit corporations are required to have bylaws, a document that lays out the roles of board members and outlines procedures governing your organization. There are no pre-printed bylaws or forms to fill out, but sample bylaws for Oregon for both membership and non-membership corporations can be found in the **Oregon Nonprofit Corporation Handbook**, available at local libraries. It can also be [purchased here](#), and you can [download chapters](#) for a nominal cost.

You need to file your bylaws with the application for tax-exempt status and when you register with the Oregon Department of Justice.

Refer to NAO Nonprofit Resource Library for [Bylaws Resources](#).

5. **Apply for tax exempt status with the IRS**

[501\(c\)\(3\) Application Form 1023](#) – for charitable, religious and educational organizations

Most charities apply for IRS 501(c)(3) status, which means that the charities' income is tax-exempt and they are also eligible to receive tax-deductible donations. Currently the IRS application fee is a minimum of \$275 if the organization is small enough to file the 1023EZ form. The fee is greater if the organization is required to file the longer 1023 form. To find out whether a 501(c)(3) exemption is the most appropriate for you, talk to a nonprofit attorney or CPA.

6. **Register with the Oregon DOJ**

[Registration Forms](#)

Generally, nonprofit public benefit corporations or associations/trusts with a charitable purpose must register with the Charitable Activities Section of the Oregon Department of Justice. Registration is required because the Attorney General has oversight authority to protect the public's interest in charitable organizations and their assets.

You do not need to register with the Oregon DOJ if you are a church, house of worship or similar type of religious organization; or if the corporation is a mutual benefit nonprofit with non-charitable purposes.

Attorney Guidance

It is recommended that you consult with a licensed nonprofit attorney in development of your bylaws and to be certain about the proper course of action for your organization. Nonprofit attorneys can also provide support for the nonprofit application process.

Here is a link to NAO's Directory with [legal service providers](#). These are business members of NAO that specialize in serving Oregon nonprofits.

PROS AND CONS OF FORMING A NONPROFIT ORGANIZATION

Nonprofit organizations can be used for any type of entity, but are specifically intended to support activities or benefit the following:

- Charity
- The Environment
- Humanitarian Aid
- Education
- Animal Protection
- The Arts
- Wildlife Conservation
- Social Issues
- Health care
- Medical aid
- Religion
- Research
- Science
- Sports
- Any other admirable or public purpose

The term “nonprofit organization” does not simply refer to an organization that cannot generate a profit; it means that an organization can only earn a profit at the entity level and the profit may not be passed on to the organization’s board of directors, officers, or members. The profit reorganization must be used for a charitable or public purpose. A nonprofit entity may legally and ethically run a trade or business that generates a profit, or hold investments; however, the profit must be used exclusively for attaining the organization’s goals. A nonprofit entity is generally exempt from taxation, with certain exceptions.

[Common 501\(c\)\(3\) Rules and Regulations](#) (BoardEffect)

Advantages & Benefits

Tax exemption is one of the principal benefits for nonprofit organizations. Tax exemption enables the organization to operate without federal (and perhaps state) income tax. This benefit often enhances the organization's ability to accumulate income and assets and can, therefore, lead the organization to be more productive over the long-term.

A second primary benefit to a tax-exempt entity is that charitable contributions to a 501(c)(3) organization are tax deductible. If an organization has obtained IRC Section 501(c)(3) tax-exempt status, an individual or company's charitable contributions to this entity are tax-deductible. Organizations must apply to the Internal Revenue Service for such status as not all nonprofit organizations qualify for tax exemption. Qualification as a nonprofit organization is defined by state law, while qualification for tax exemption is largely determined by federal tax law.

Tax exemption does not apply to employment or payroll taxes. Conditions such as the tax-exempt purpose, complying with limitations on spending, and an internal safeguard for a charity must be met for the IRS to issue an authorization letter of tax-exempt status. Failure to maintain operations in compliance with the law may result in an organization losing its tax-exempt status.

There are benefits of organizing a nonprofit organization as a corporation. Limitation on personal liability is a significant benefit in organizations of the corporate form. If the corporation is found liable for damages, the liability is generally confined to the corporation. The directors and officers of the organization are generally not held liable for the wrongdoing of the corporation, whereas unincorporated associations do not have this protection available. However, organizations that are incorporated are required to file organizational documents and annual reports with the state. These documents are a matter of public record.

Disadvantages

The cost of setting up and running a nonprofit organization is one of its principal disadvantages. Because a nonprofit is a legal entity, the use of an attorney or accountant is recommended as the rules and regulations are complex. While tax exemption is one of the advantages of qualified nonprofits, the fee of incorporation and application for exemption is a disadvantage. These costs are not the same for every entity. With the corporate form of nonprofit organizations, filing with the state is required. The cost of annual reporting requirements is also a disadvantage.

In creating nonprofits, personal control is limited. In some cases the organization's directors are the only people allowed to elect officers and to determine corporate policies. Nonprofits are subject to federal and state laws and regulations, and must follow its own articles of incorporation and bylaws, which again limit personal control over the nonprofit entity.

As a nonprofit organization is dedicated to charity or the public, its finances are also open to inspection by the public. The public may be able to obtain copies of the nonprofit organization's expense and salary reports as well as state and federal filings.

Certain detailed documents including financial records, articles of incorporation, bylaws and annual reports, as required by the state in which it is incorporated, must be prepared in a specific manner and filed by certain deadlines.

[Pros and Cons of Becoming a Nonprofit Organization](#) (GrantSpace)

Problem Areas

There are many ongoing problems faced by nonprofit organizations. Congress and the IRS perceive a great deal of fraud in the area of charitable giving and have a great deal of concern about taxpayers avoiding their legal obligations. As a result, the Pension Act of 2006 details the significant changes in the laws that deals with charitable organizations. These recent tax law changes are broadly ranged into several categories:

- Greatly increased information-sharing between the IRS and state governments on exempt organizations.
- Greatly increased regulation and scrutiny of donor-advised funds.
- Greatly increased regulation and scrutiny of supporting organizations.
- Increased and more detailed reporting requirements in charitable information returns, including Form 990, with reporting requirements extended to more charitable organizations.
- Increased penalties for self-dealing, excess benefit transactions, fraud and abuse.
- Increased reporting and scrutiny of in-kind and cash donations, with greater requirements for appraisals and receipts.

Another problem area is the increasing cost associated with Capacity Building. Capacity Building is best described as actions that enhance a nonprofit's ability to work towards its mission. Since most nonprofit organizations rely on outside funding (grants, government funds, and direct donations), changes in these funds may influence reliability and predictability with which the organization can hire and retain staff, create programs and maintain facilities.

Fiscal Sponsorship

Fiscal Sponsorship is an agreement through which a project or organization without tax-exempt status – but which could qualify for exemption - partners with an existing tax-exempt organization in order to receive donations and grants. Any nonprofit that the IRS recognizes as exempt under section 501(c)(3) can be a fiscal sponsor. If you are already working closely with a 501(c)(3) organization, you may want to consider asking them to be your organization's fiscal sponsor. It is important for sponsoree organizations to find a fiscal sponsor that have a similar mission or area of interest, as the fiscally sponsored program is technically a “program” of the fiscal sponsor.

With the complexity and detail in structuring an agreement, it is important to understand that charitable contributions for the project are accounted for in the financial books of the 501(c)3 organization, and the organization serving as a fiscal sponsor is doing so under the rules and regulations of the IRS. Funds earmarked for the project must be properly controlled and overseen by the fiscal sponsor: they must have the capacity to properly steward the funds, have mission alignment, and a willingness to maintain good communication with the project.

The Internal Revenue Service (IRS) has been more closely scrutinizing these types of arrangements in recent years, so being thoughtful in how you form your fiscal sponsorship is important. It should also be noted that the fiscal sponsor will usually take an administrative fee (typically between 7% and 15% of the sponsored organization's funds) to cover the costs of administering the sponsored organization's financial reporting and banking fees.

Additional Fiscal Sponsorship Resources

[NAO Quick Guide to Fiscal Sponsorship in Oregon](#)

[NAO Nonprofit Resource Library](#)

The following resources may help you find a fiscal sponsor:

- [Cascade Pacific Fiscal Sponsorship Services](#) – Provides fiscal sponsorship services in Oregon.
- [The Fiscal Sponsors Directory](#) - A searchable directory of potential fiscal sponsors.
- [National Network of Fiscal Sponsors](#)

One of the best resources available for quickly understanding fiscal sponsorship is Gregory Colvin's book: [Fiscal Sponsorship, 6 Ways to Do It Right](#).

For additional questions, we recommend that you consult a licensed nonprofit attorney for guidance and assistance in preparing fiscal sponsorship agreement.

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