



NON-PROFIT STATUS FOR NEIGHBORHOOD ASSOCIATIONS

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DISCLAIMER

The content of this presentation is for informational purposes only. It is not the intent of the City of Renton to offer legal advice or to require obtaining non-profit status for neighborhood associations.

ADVANTAGES TO OBTAINING NON-PROFIT STATUS

Legal Liability - Operating under a legally formed non-profit organization offers certain protections against potential liability for the things your association does. Without a separate legal “existence” you are exposed to the risk of having to spend your own money and time to defend against a lawsuit or other legal action.



ADVANTAGES TO OBTAINING NON-PROFIT STATUS (CONTINUED)

Federal Income Tax – Non-profit status means that your organization has been recognized by the IRS as exempt from paying federal income tax.

If your organization has not applied for non-profit status all income received by the organization is subject to federal income tax.

TAX IDENTIFICATION NUMBERS

You must obtain an EIN to do most business including banking* and participating in the City of Renton Neighborhood Grant Program. When you apply for an EIN you must disclose your legal structure to the IRS. Your legal structure determines what type of annual return you are required to file.

*You may set up a bank account under a member's Social Security number, but may result in personal tax liability.

LEGAL STRUCTURE

“It is best to be sure your organization is formed legally before you apply for an EIN. Nearly all organizations are subject to automatic revocation of their tax-exempt status if they fail to file a required return or notice for three consecutive years. When you apply for an EIN, we presume you’re legally formed and the clock starts running on this three-year period.” - IRS

FAILURE TO FILE PRIOR REQUIRED RETURNS

If your organization has not applied for non-profit status and has not filed required annual returns with the IRS in the past, exemption from federal income tax generally will be recognized from the postmark date of the application for exemption.

Exemption under 501(c)(4) status *may* be granted for prior periods, but usually only for reasonable cause.

DOES YOUR ORGANIZATION QUALIFY FOR EXEMPTION?

There are various paragraphs in Section 501(c) of the Internal Revenue Code under which your organization could qualify for exemption. Neighborhood associations usually qualify under Section 501(c)(4) – Civic Leagues and Social Welfare Organizations.

HOW TO APPLY FOR NON-PROFIT STATUS

The first step is to legally form your non-profit with the State of Washington. Items to be filed with the Secretary of State are:

- Reservation request for organization name
- Articles of Incorporation
- Bylaws
- Conflict of Interest Policy

HOW TO APPLY FOR NON-PROFIT STATUS (CONTINUED)

A great resource can be found on the Secretary of State's website at:

https://www.sos.wa.gov/_assets/charities/Washington%20Nonprofit%20Handbook.pdf

Note: Handbook is from 2009. Tax information is not current. Use IRS publications.

HOW TO APPLY FOR NON-PROFIT STATUS (CONTINUED)

Once legally formed, application for exempt status is made to the IRS. IRS forms to complete are:

- Form 1024 – Application for Recognition of Exemption Under Section 501(a)
- Form 8718 – User Fee for Exempt Organization Determination Letter Request

Available online (including instructions) www.irs.gov.

HOW TO APPLY FOR NON-PROFIT STATUS (CONTINUED)

IRS publication 557, *Tax-Exempt Status for Your Organization* contains various helpful information including detailed instructions on applying for tax exempt status. It is available online at www.irs.gov.

HOW TO APPLY FOR NON-PROFIT STATUS (CONTINUED)

Wayfind is a non-profit located in Seattle that offers free legal assistance to qualifying non-profits for a small application fee.

A Nonprofit Legal Self-Assessment Checklist, sample Articles of Incorporation, sample Bylaws, and a sample Conflict of Interest Policy are available online at <http://wayfindlegal.org>.

CONTINUING COMPLIANCE

IRS publication 4221nc, *Compliance Guide for Tax-Exempt Organizations (Other than 501(c)(3) Public Charities and Private Foundations)* is available to assist you with continuing requirements of non-profit organizations. It is available online at www.irs.gov.