

# Forming a Tax Exempt Friends' Group

Prepared by:  
Rob Geiszler,  
Vermont Department of Libraries



## Creating a corporation

- What are the advantages of creating a corporation?

- \_\_\_\_\_

- \_\_\_\_\_

- \_\_\_\_\_

---

---

---

---

## Creating a corporation

- What are the disadvantages of creating a corporation?

– \_\_\_\_\_

– \_\_\_\_\_

– \_\_\_\_\_

---

---

---

---

## Creating a Corporation

- Do we need to incorporate?
  - Persistence and consistent governance
  - Liability
- What are the steps?
  - State Requirements: Title 11B VSA
    - Articles of Association (incorporation) – the authority to exist
    - Filing Fee (\$75.00)
    - Bylaws
    - Meetings and officers

---

---

---

---

## Friends Groups and Taxation

- Applying for recognition – [Form 1023](#)  
Application for Recognition of Exemption
- Have copies of your organizing documents available :
  - Articles of incorporation
  - Bylaws
  - Titles, Names & Addresses of Officers, Directors & Trustees
  - Financial data, if any

---

---

---

---

## Friends Groups and Taxation

- Some fundamental requirements of your organizational documents:
  - State your exempt purpose
  - Upon dissolution remaining assets must be used exclusively for exempt purposes
  - Conflict of interest policy
- Amend organizational documents if necessary before filing Form 1023

---

---

---

---

# Friends Groups and Taxation

## Filing form [1023](#)

- Complete the form
  - Do not complete Part X Line 5(d) – Section 509(a)(3) Supporting Organizations
- Assemble the documents
- Pay the filing fee
  - average gross receipts < \$10,000; \$400
  - average gross receipts ≥ \$10,000; \$850

---

---

---

---

# Friends Groups and Taxation

- What are the advantages of applying for 501(c)(3) ?

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

---

---

---

---

# Friends Groups and Taxation

- What are the advantages of applying for 501(c)(3) ?
  - The Organization is recognized as tax exempt
  - Donor contributions are recognized as deductible
  - Granting agencies may require recognition

---

---

---

---

# One more advantage

## 12 VSA §5781

Nonprofit organizations

A person who serves without compensation as a director, officer or trustee of a nonprofit organization qualified as tax-exempt under section 501(c) of the Internal Revenue Code of 1986, as from time to time amended, shall not be held personally liable for damages resulting from:

- (1) any act or omission within the scope of the person's official functions or duties which is done in good faith, unless it constitutes gross negligence or an intentional tort; however, this subsection shall not protect a person from liability for damages which result from the operation of a motor vehicle;
- (2) any act or omission of an employee of the nonprofit organization; or
- (3) any act or omission of another director, officer or trustee.

---

---

---

---

## Friends Groups and Taxation

- What are the disadvantages of applying for 501(c)(3) ?

– \_\_\_\_\_

– \_\_\_\_\_

– \_\_\_\_\_

---

---

---

---

## Friends Groups and Taxation

- What are the disadvantages of applying for 501(c)(3) ?

– Cost of application

– Completing the application

– Annual filing requirement

---

---

---

---

# Ongoing Requirements

## Federal requirements –

- Comply with the bylaws
- File annual informational return (Form 990-N, 990-EZ, 990)

**Urban Institute's Electronic filing website: <http://efile.form990.org/>**

Completing the e-Postcard requires the eight items listed below:

1. Employer identification number (EIN), also known as a Taxpayer Identification Number (TIN).
2. Tax year
3. Legal name and mailing address
4. Any other names the organization uses
5. Name and address of a principal officer
6. Web site address if the organization has one
7. Confirmation that the organization's annual gross receipts are normally \$25,000 or less
8. If applicable, a statement that the organization has terminated or is terminating (going out of business)

---

---

---

---

# Danger! Danger! Danger!

- Engaging in profit making business
- Failing to follow bylaws
- Engaging in non-exempt activities:
  - Political activity
  - Lobbying activity
- Private Benefit or Inurement
- Failing to comply with reporting requirements

---

---

---

---

## Ongoing Requirements

### State requirements (for corporations)

- Comply with the bylaws
- Must have at least one, annual meeting
- Maintain a Registered Agent and address
- Biennial Report & Filing fee (\$15)

---

---

---

---

## Resources

### Idealist.org:

<http://www.idealist.org/if/idealist/en/FAQ/Nonprofit/Home/default>

### National Council of Nonprofit Associations:

<http://www.councilofnonprofits.org/>

### Urban Institute (lots of help for nonprofits)

<http://www.urban.org/nonprofits/index.cfm>

---

---

---

---



## Corporate Authority – Resources

- Vermont Secretary of State: Corporations Division; Nonprofit Organizations  
<http://www.sec.state.vt.us/corps/dobiz/npo.htm>
- Vermont Secretary of State: A Short Guide to Vermont's Nonprofit Corporations Law  
[http://www.sec.state.vt.us/corps/dobiz/npo/short\\_guide.htm](http://www.sec.state.vt.us/corps/dobiz/npo/short_guide.htm)
- Vermont Secretary of State: Fees charged Vermont Nonprofit Corporations:  
<http://www.sec.state.vt.us/corps/fees.htm>

---

---

---

---

## Resources

### **Model Bylaws**

<http://www.sec.state.vt.us/tutor/dobiz/noprof/foilage.htm>

### **IRS formation information**

<http://www.irs.gov/charities/charitable/index.html>

### **IRS 990 Filing requirements**

<http://www.irs.gov/charities/index.html?navmenu=menu1>

My contact info:

786-3839

[rob.geiszler@state.vt.us](mailto:rob.geiszler@state.vt.us)

---

---

---

---