

Crucial Factors to Consider When Starting a Nonprofit





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Establishing a nonprofit organization is an exciting but multifaceted process involving planning for various elements including mission & vision statements, legal structure, funding strategy, and executive leadership.

During a nonprofit launch, it's important to consider how payroll, taxes, legal compliance, and workforce management should be addressed during establishment and once the organization is up and running.

Thoughtfully handling this process in the early phases of your nonprofit can help you more effectively launch projects, attract funding, and forge community partnerships without fielding additional in-house burdens, employee retention concerns, or tax and compliance-related headaches.

In this nonprofit startup guide, you'll learn about the crucial factors you should consider when establishing a nonprofit, including essential payroll, tax, and compliance considerations that can help you focus on your mission and contribute to the communities you serve.

Define Your Mission and Vision

The overriding goal of creating a mission, vision, value, or purpose statement for your nonprofit is to articulate why it exists, the needs it addresses, and for whom (or where) it offers support.

Most mission statements range from two sentences to a full paragraph and serve as the core justification for the organization's establishment, expressing what the organization contributes, and how it makes those contributions. The mission statement is practical and grounded, giving a succinct and accurate description of why your organization exists.

Formulating a strong vision statement is equally important because it expands upon the mission statement. It captures your long-term goals, how the nonprofit intends to grow and enhance its contributions over time, and how it intends to contribute to meaningful social or global change (if applicable).

Since a nonprofit's mission and vision statements are frequently used in a variety of public-facing materials, including the website and promotional publications, it's crucial to dedicate appropriate time, care, and attention to the process to ensure that your nonprofit's value is communicated in a clear and compelling way.



Choose the Right Legal Structure

Your nonprofit's legal structure impacts how your organization will be classified and documented at state and federal levels.

Since legal structures vary somewhat state by state, it's important to familiarize yourself with those that apply to your jurisdiction. Many nonprofits form a nonprofit corporation at the

state level and apply for federal tax exemption using 501(c)(3) status (as a charitable organization).

Let's briefly explore the different classification categories at the federal level so you can make the best choice based on the specifics of your organization.

- **501(c)(3)** – This is the most common nonprofit classification. It is best suited for charitable organizations and private foundations that address broad concerns including education, medical research, and more. Funding for 501(c)(3)s is generated through grants and donations.

- **501(c)(4)** – This classification type is suited for nonprofits focused on social welfare and the public good. Unlike other classifications, it is entitled to participate in lobbying or political activities and to express political views, support proposed legislative change, and align with or endorse political candidates. Contributions made to 501(c)(4) are not tax deductible for donors.

- **501(c)(7)** – This classification is best suited for recreational or social clubs: namely, membership organizations that generate at least 50% of funding through the collection of dues and fees from club members. Whether the organization is a country club, community association, or sports-related club the majority of 501(c)(7)s are not required to pay federal income tax on member contributions, but may need to pay for non-member contributions, which typically account for 35% of funding sources.

- **Additional Federal 501(c) Classifications** – A range of other 501(c) designations are appropriate options for labor, agricultural, fraternal, employee, and veterans organizations, and the [IRS' guide, Tax Exempt Status for Your Organization](#), is a helpful resource for determining which is best and most fitting for your nonprofit.

Regardless of which 501(c) classification you choose for your organization, remember that state templates will differ from what is required in the IRS 501(c) application. For example, as a nonprofit corporation, you will need to create

and share a state-specific statement of corporate purpose that mirrors and complements the information you share in your federal application, which is meant to capture the activities your nonprofit will conduct to fulfill its mission.

Establish Your Budget and Organize Your Financial Management

Although a nonprofit is categorically distinct from a for-profit business, it's still essential to prioritize financial management and budget planning to ensure the sustained success of the organization. Whether it's determining salaries, preparing for necessary purchases, or developing a thoughtful fundraising strategy, these are all important steps to help you accurately estimate operating costs and begin planning for hiring, as well as soliciting community support through volunteerism and donations.

Assuming you've already budgeted for initial registration, legal, and nonprofit startup costs, let's explore how crafting a fundraising strategy, organizing a board of directors, and creating strong partnerships and community support can directly impact the financial well-being of your organization.

Craft a Solid Fundraising Strategy

Most nonprofits require donor support to sustain operations and grow.. Since there are a number of pathways to fundraise, each organization should look at its own community and potential donor base to determine which methods will be most effective. Fortunately, nonprofits have a slew of options ranging from email, direct mail, telephone, and social media campaigns to online fundraising events, charitable auctions, or in-person events, including those organized in the local community.

Depending on the type of nonprofit you've formed, you may also leverage local, state, or federal grants to support your organization. Some nonprofits prioritize grant support heavily enough to employ or contract with a designated grant writer. In an effort to attract larger, concentrated financial support, some nonprofits also attempt to form partnerships with the charitable branches of large corporations. Whether it's soliciting a direct donation from the company itself or establishing a matched donation agreement (allowing employees of the company to make private donations to the nonprofit that are matched by their employer), these partnerships can majorly benefit both organizations and serve as a significant funding source for the nonprofit.





Assemble a Strong Board of Directors

In addition to fundraising campaigns, grant applications, and corporate partnerships, attracting the right board members can lead to increased access to financial resources in the community. This is especially true if a board member is already well-established in nonprofit or philanthropic circles and can leverage their existing network of contacts to garner support for the organization and help with marketing and promotional efforts. You will want to attract board members with other skills and expertise, whether it's financial, legal, communications-oriented, or otherwise to meet the specific needs of your organization.

Your board of directors should help your nonprofit achieve its core mission and be genuinely committed to the purpose and vision

of the organization. When assembling a board of directors, identify the skills needs and gaps and fulfill those needs or complement them with the contributions of other employees or volunteers.

The executive director of any nonprofit must demonstrate a deep commitment (including a time commitment) to the mission, vision, values, and practical goals of the organization. They must rally their skills and experience to lead the organization and effectively manage the board of directors, serving as a key figure at monthly or quarterly board meetings, and showing a capacity to successfully collaborate with other board members, community partners, employees, volunteers, and anyone else contributing to the organization.

Build Support with Community Partners

Without an authentic connection to your community, it's difficult to forge meaningful partnerships and gain a lasting fundraising base. Especially early on, nonprofits should emphasize raising awareness about their mission and vision through marketing efforts, but also showcase the positive, concrete results of their efforts as quickly as possible. With access to (and evidence of) small, medium-, or large-scale projects or initiatives that

have changed lives, improved a community, or advanced an important social cause, individuals, stakeholders, businesses, and other organizations are more likely to provide financial support. This emphasis on clarity, transparency, and concrete/measurable outcomes or goals is always advisable, but required when receiving certain grants.

Understand Nonprofit Payroll

Running a successful nonprofit requires a team with a diverse range of skills, perspectives, and experience. As a result, most nonprofits have a staff composed of board members, executives, volunteers, contractors, and employees, who collaborate and contribute to unique dimensions of the organization's mission.

This range of employee classifications and roles can make managing workforce payroll a demanding and complicated task. To avoid nonprofit payroll errors, miscalculated taxes, and classification errors it's essential to work with a qualified payroll provider that can help your organization navigate all of the following concerns:

- Minimum wage and overtime calculations/compliance
- Employee vs. volunteer compensation

- Adhering to FLSA and Volunteer Protection Act requirements
- Employee classification
- Timely and accurate payments and withholdings
- Fulfilling obligations re: payroll taxes and FICA contributions
- Proper filing of Form 1024, Form 990-T and other required tax documents
- Proper tax management of funds received through grants, fundraising, corporate donations, etc.
- Compliance with local, state, and federal regulations specific to your 501(c) classification, jurisdiction, and more.

Navigate Legal Compliance and Regulations

A qualified payroll provider that offers an integrated HCM platform can help your organization automate key compliance and regulatory processes, especially as it relates to retaining financial records of your nonprofit's activities, which can be digitally generated and stored. Payroll software can also streamline the preparation and submission of all local, state, and federal tax forms ranging from state resident/donor solicitation forms to other RS-required records of board meetings, and bylaw compliance.



FAQs

What crucial things should I consider before starting a nonprofit?

Ensure your organization will address an unfulfilled need in or among a community. You should be able to offer a distinct service or contribution that is likely to be supported through fundraising, grants, or other funding. On a more technical level, you'll need to decide on the type of 501(c) you would like to establish to align with federal classifications and choose your legal structure based on the options available in your state/jurisdiction. You'll also need to carefully consider who you will invite to serve on the board of directors and who can contribute to your organizational efforts as employees, volunteers, or community partners.

How do I define the mission and vision for my nonprofit?

You should craft a mission statement that is succinct but compelling, concretely demonstrating what your organization does, how it will take meaningful action in the community, and what motivates the organization to pursue its work. A vision statement is a projection of long-term goals, accomplishments, and aspirations: a statement articulating the eventual impact your nonprofit intends to have, including its impact on social or global issues.

How do I create a sustainable fundraising strategy for my nonprofit?

Your fundraising strategy should adapt based on which marketing, partnership, or grant-/donor-seeking efforts prove successful. For some nonprofits, focusing on funding through federal grants is best, while for others, private donors or community partnerships with charitable wings of large corporations can be effective. In some cases, it's best to appeal to the full range of fundraising sources. Regardless, transparency about intended (or already accomplished) goals can majorly support fundraising efforts, showing both private and corporate donors the tangible impact of the work you do and/or your capacity to plan for and accomplish major goals.





Plan for Sustained Success, Impact and Visibility with IRIS

Establishing and launching a successful nonprofit is demanding enough without adding payroll, tax, compliance, and workforce management tasks as an in-house burden. Equally important, inaccuracies or errors in these processes could lead to employee retention issues, financial/legal penalties, or significantly detract from pursuing your mission and vision.

That's why [IRIS Payroll & HCM Services](#) offers a comprehensive payroll solution and a range of easily integrated HCM tools to streamline all of your payroll, tax, and compliance processes. If you're ready to enjoy payroll peace of mind and expert support that empowers you to focus on your mission and goals, take the first step today to benefit from our payroll platform, uniquely designed to support nonprofits.

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