

**How to Start a Nonprofit Business!**

FabJob Guide to  
**Become a  
Social  
Entrepreneur**



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# 1. Introduction

## 1.1 Welcome to Nonprofit Business

Do you feel inspired to use your talents to help others? Would you like to change the world, or change the lives of a group of people? Do you feel passionate about human rights, education, literacy, fighting disease, or another type of cause that benefits humanity? Well, now is the time to start doing work you believe in — by starting up your own nonprofit business.



If you're like most people who think about starting a nonprofit, you're probably feeling excited about putting your idea into action, but **overwhelmed** by the process. Where do you start? What steps do you take? How much money will you need? Who do you contact in your state or at a federal level for more information?

This e-book, *FabJob Guide to Become a Social Entrepreneur*, will answer these questions for you, and so much more. Let's start with some basic information about nonprofits, and define some terms that will help you use this book effectively. You'll find more in-depth answers to your questions about how nonprofits work in Chapter 2.

### 1.1.1 Definitions and Distinctions

Nonprofit businesses work for the **benefit of society** in some way. Because they are working to make the world a better place, the Internal Revenue Service (IRS) offers these charitable organizations the advantage of not paying federal income tax. This way more money is available to achieve the valuable goals of the business.

With the obvious perks of not paying business tax, entrance into the nonprofit sector has **nearly doubled** in the last ten years, according to the National Center for Char-

table Statistics. As of 2009, their data showed over 1.5 million tax-exempt nonprofit organizations operating in the U.S., excluding government and foreign NPOs.

Some examples of **nonprofit businesses** you've probably heard of at some time or another:

- America's Second Harvest
- American Cancer Society
- Big Brothers Big Sisters of America
- National Wildlife Federation
- Salvation Army
- Smithsonian Institution
- United Way

Nonprofit businesses can fall into more than two dozen different IRS categories based on their purpose, but the most common classification is **501(c)(3)**. All nonprofit organizations tax exempt under subsection 3 of section 501(c) of the Internal Revenue Code must be operated for religious, charitable, scientific, literary, or educational purposes; testing for public safety; fostering national or international sports competition; or preventing cruelty to children or animals.

This guide assumes that you will be seeking 501(c)(3) status with the IRS for your business. If your idea for a nonprofit does not fall into these categories, you may want to refine your goals, as the benefits of being a 501(c)(3) are substantial, including exemption from federal unemployment tax (FUTA), discounted mailing rates, and even some state tax exemptions.

501(c)(3)s enjoy the additional advantage of being able to issue **tax-deductible receipts** to their donors, making it easier to attract funding dollars. In many cases, foundations and government sources of grant money will require that your business is a tax-exempt nonprofit in order to consider your application for funding.

Of these 501(c)(3) tax-exempt organizations, a portion of them qualify as **public charities**. These normally receive their financial support from a broad segment of the general public (not one person or a small group, like a private **foundation**), and/or from government funding. This guide also assumes that you will be seeking public charity status, not starting up a private foundation.

While this guide uses the term "nonprofit," the term "**not-for-profit**" means the same thing in the industry. Also, "nonprofit" does not mean that your business can't make

a profit. Indeed, you should intend to generate more revenue than your immediate needs. This will allow you room to grow, expand your services, or absorb cutbacks to funding. Nonprofits do have legal restrictions on how their surpluses can be generated and allocated, which will be explained in this guide.

For the purposes of this guide, we call your nonprofit a “business.” As much as possible, you should think of your nonprofit as a business, and run it with intent to succeed. Although we will refer to “your nonprofit” in the guide (as in, the nonprofit you want to start), unlike for-profit business no one can “own” a nonprofit. You can be the founder, the incorporator, a director, or an officer of the nonprofit, but you will never be the owner, you will never collect dividends, and you’ll never sell the nonprofit for personal gain.

You will need to **incorporate your business** before you apply to the IRS for tax-exempt status, by filing your incorporation articles with your state. (Other legal structures are possible, but they aren’t likely to meet your needs.) Corporations are governed by specific operating rules as well, such as that you have a board of directors, and hold regular meetings.

Nonprofit corporations, like other incorporated businesses, protect their founders and officers from personal liability for the actions of the corporation. The business is treated as a separate entity from those who start it and run it. So if someone decides to sue your nonprofit, they can only go after the assets of the nonprofit, not your house or your retirement fund.

Some states require that you are **at least 18 years of age** to incorporate a business. If you are not yet 18 you may need to start your nonprofit informally for now, or work in partnership with an adult. Section 3.2 of this guide has more details on incorporating, and resources for you to check the laws in your state.

## 1.1.2 What It Takes

In your research so far, you will have come across the term “**social entrepreneur.**” This is a relatively new name for a founder of a nonprofit who seeks to solve social problems, not just throw money at them. Like great figures in history, their ideas are often unique and revolutionary. They approach nonprofit work with the same drive to succeed as someone working for his or her own benefit, apply business principles learned from the for-profit sector to social problems, and strive towards sustainability.

You may be wondering what type of person starts a nonprofit, and whether you fit the mold. Social entrepreneurs come in many variations and styles, but many seem to share some basic, defining characteristics. How many of the following apply to you?

- You are compassionate.

- You are an “ideas” person.
- You are a doer, not just a talker.
- You are passionate about things you believe in.
- You can get others motivated.
- You are organized.
- You are patient.
- You can explain yourself clearly.
- You don't need daily praise for what you do.
- You set short and long-term goals.

Even if you share only a few of these qualities, you are **off to a good start**. More may come to you in time, as you build your concept, gain experience, and make connections in your community.



The fact is, just about anyone with the drive and determination to see their dream become a reality can start a nonprofit business. Some paperwork and filing fees will get your nonprofit started in most cases, and then you can focus on your unique goals from there. And with Americans' charitable giving in 2008 hitting \$229 billion, there's **never been a better time** to raise money for a worthwhile cause.

### 1.1.3 Benefits of Nonprofit Work

People are drawn to nonprofit work for different reasons. Perhaps you have recently become aware of a social problem, or maybe you've recognized a situation for a while and have finally decided to make a change. Personal experience with illness, injustice, suffering or disaster motivates people to want to make a change, so others can benefit. Here are some of the benefits of dedicating yourself to a nonprofit cause.

## Help People, Your Way

When you run a nonprofit business, you directly help the people who need it. The effects of your mission and programs will change people's lives and their futures. Sure, you can donate money to a cause... and as a socially conscious person, you probably still will. But as founder of your nonprofit you will lay the groundwork for how the nonprofit will direct funds, run effective programs, and best serve its mission.

## Change the World

On the website for **Ashoka**, a global association of social entrepreneurs, founder **Bill Drayton** shares this thought: "Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry." As a social entrepreneur, you are driven to address the root causes of problems. Nonprofit businesses run well will have positive local, regional, and national effects, and quite possibly bring about global change.

## Hands-on Involvement

Starting any business requires that you get involved with your organization on an intimate level. And since many nonprofits start out on a small budget, you may be playing many roles, especially at the beginning. You may travel the world for your cause, meet with powerful leaders, or be swarmed by crowds of people grateful for your help. This keeps the work interesting, and challenges your limits. For founders who become executive directors, hands-on involvement and seeing the immediate results of effort are also great rewards and motivators.

## Freedom from the "Rat Race"

If you're tired of chasing money for people who already have enough of it, or frustrated with enforcing corporate policies that don't reflect your values, it's time to get out of for-profit business and use your talents for the greater good. That's not to say that there is no "corporate" in what you'll do, but you'll use a new kind of measuring stick for your achievements: one that shows dollars raised, lives changed, and people helped, instead of quarterly profits and units sold.

## Make a Difference Right Now

You can start planning your nonprofit business **right now**, as you move through the pages of this guide. By beginning to formulate your ideas, refine your mission, and learn the steps to take, you are already starting to make a difference in your world.

## 1.2 Inside this Guide

The **FabJob Guide to Become a Social Entrepreneur** takes you through the process of establishing a nonprofit corporation — and specifically, a 501(c)(3) public charity — in the U.S. You'll be able to get started and succeed, armed with the knowledge and resources provided. Your investment in this guide will set you ahead of the others, who lack the knowledge to put their ideas into action.

**Chapter 2** (*Getting Ready*) puts your plan into motion. You'll choose and refine an appropriate nonprofit mission, then learn about the different parts of your nonprofit business' "identity." The chapter also explains what important parts of your business you should have in place early on to establish credibility, setting up an office, and legal matters from filing requirements to insurance.

**Chapter 3** (*Starting a Nonprofit Business*) goes into the details of meeting the most common state requirements for incorporation: forming a board of directors, writing bylaws, filing your articles, etc. It also takes you through the subsequent steps of filing for tax-exempt status with the IRS, and then explains some of the legal obligations specific to the nonprofit sector.

**Chapter 4** (*Running Your Nonprofit*) helps you learn how being a nonprofit affects how you do business from day to day. You'll get important information about business planning, developing programs, hiring staff, recruiting and coordinating volunteers, and raising awareness about your nonprofit's work and mission.

**Chapter 5** (*Getting Money for Your Nonprofit*) focuses on how you'll keep your nonprofit able to operate: fundraising from individuals and corporations, applying for grants, and generating income through related activities. The guide concludes with some final thoughts on the current environment — and future — of social entrepreneurship in our society.

Throughout the guide you'll find links to online samples of the forms and materials you'll use to start and run your nonprofit business. Applying what you learn here, it's just a matter of time before you'll be where you want — in a rewarding career directing the actions and future of a nonprofit business dedicated to making the world a better place.