



# Starting a Nonprofit in Maryland

## Phase 1: Research and Organize

### Alternatives to Starting a Nonprofit

There are several alternatives to seeking a tax-exempt nonprofit status, such as starting a corporation, benefit corporation or L3C, social enterprise, fiscal sponsorship, or partnering with an existing nonprofit. You should explore the pros and cons of these alternatives to determine what is the best fit for your goals.

### Defining Your Purpose and Mission

The purpose of the organization needs to be aligned with the [IRS 501\(c\)3 statute](#). Your founding board must articulate a mission for the organization: a clear, brief statement that tells the community what your purpose is, and what you wish to accomplish through your charitable efforts.

*Maryland Nonprofits Free Resource:* You can use our Mission, Vision, Values Toolkit to work with your co-founders to determine a draft mission statement

### Market Research: Competition and Partners

Once you know what you want your mission to be and have an idea of what your programs will be, conduct a market analysis to identify other organizations that have similar purposes to your intended organization. In addition to reaching out to similar organizations, you should also contact your local community foundation, United Way, or Chamber of Commerce. Such organizations are resources to help you determine the degree of need in the community, the viability of your idea, the types of programs that already exist, and the potential level of support, both financial and otherwise, that exists. If you are at all unsure about what it takes to run a successful nonprofit, these agencies will be rich resources from which to learn – they are most likely to know “what it really takes” to make it work.

### Your Role as the Founder

As the founder, you will need to decide between being a volunteer or paid executive director/CEO OR being the Chair/President of the Board. You can't be both. Learn the differences between these roles and make the right decision for the future sustainability of your nonprofit.

*Maryland Nonprofits Free Resources:* Sample Executive Director Job Description  
*Maryland Nonprofits Members Only Resources:* Board-Executive Partnership, Executive Compensation Policy

**Recruit a Founding Board of Directors**

This should be a group of 5-7 unrelated individuals that will be responsible (legally) as fiduciaries for the organizations governance, finances, and legal compliance (The IRS will be looking to see that your board is comprised of “unrelated” individuals – related is considered either familial or through business partnerships). The most important quality of a successful board member is commitment to the mission.

*Maryland Nonprofits Free Resources:* Sample Board Job Description  
*Maryland Nonprofits Members Only Resources:* Board Member Roles and Responsibilities, Board Composition

**Develop a Business Plan and a Budget**

You will need to describe your proposed program activities in detail. This includes exactly whom you plan to serve and by what means. Once you make those determinations you will need to create a budget forecast for your first three years. This includes all expected forms of income (grants, donations, fee for service, etc) and necessary expenses to operate your business and deliver the programs described. Identify the likely sources of income upon which you can rely to support your cause. Grants alone are rarely enough to support organization over the long term. If you are planning to raise money through grants, do research as to what foundations are likely to fund your specific cause for a start-up organization – in other words, without any evidence of outcomes..

*Maryland Nonprofits Members Only Resources:* Sample Budget Tool, Sample Resource Development Plan, Fundraising Practices, Sample Business Plan

## Phase 2: Organizing Documents and Your First Organizational Meeting

**File Articles of Incorporation (Corporate Charter)**

Be sure to file Tax-Exempt Non-Stock Articles of Incorporation. In order to have articles that will qualify your corporation for federal 501(c)3 tax-exempt status, you must have a dissolution clause that meets the requirements of the IRS indicating that if your organization is dissolved, “assets will be distributed for an exempt purpose described in section 501(c)3, or to the federal government, or to a state or local government for a public purpose.” File with:

Maryland State Department of Assessments and Taxation Charter  
301 W. Preston Street, 8th Floor  
Baltimore, MD 21201-2395  
410-767-1330

More information: <http://www.dat.state.md.us>

**Fee: \$170** (\$150 fee plus \$20 Organization & Capitalization Fee)

*Maryland Nonprofits Free Resources:* Sample Articles of Incorporation

**Obtain Federal Employer Identification Number (EIN) from the IRS**

You can file the form online or by mail, phone, or fax.

EIN Operations  
Holtsville, NY 11742  
Phone: (800) 829-4933  
FAX: (631) 447-8960

[Apply Online](#)

**Develop a Conflict of Interest Policy**

This policy will assure that conflicts of interest are both avoided and mitigated when decisions are made regarding the use of organizational resources and/or assets. A conflict of interest policy and accompanying declaration of interest statement will also support the designation of board members who will be able to act in the best interest of the organization.

*Maryland Nonprofits Members Only Resources: Conflicts of Interest, Sample Conflict of Interest Policy and Annual Disclosure Statements*

**Draft Bylaws**

Bylaws are the organization's governing documents and dictate the specifics regarding how the board of directors functions and important decisions are made and carried out. The state does not require a copy of an organization's bylaws, but they must be attached to the federal tax exemption application.

*Maryland Nonprofits Free Resources: Sample Bylaws*

**Hold First Organizational Meeting**

Board members identified in the Articles of Incorporation elect a slate of officers (including President or Chair, Vice President or Vice Chair, Secretary, and Treasurer); bylaws are ratified and Articles of Incorporation are accepted. Meetings minutes are taken to create a record of the meeting and elected officers. **This meeting is required by law in order to complete formation of your corporation.** At this first meeting you should also approve a mission statement and a conflict of interest policy. Board members should sign annual conflict of interest disclosure statements.

### Phase 3: Obtain Federal Tax-Exemption Determination

**Complete and File IRS Form 1023 or 1023 EZ (if seeking 501(c)(3) tax-exempt status)**

You will have to decide whether to file the Form 1023 or Form 1023-EZ. First, complete the Eligibility Worksheet to determine if you may file using the Form 1023-EZ: <https://www.irs.gov/pub/irs-pdf/i1023ez.pdf> See page 11 of 21. In general, the EZ Form may be used by small nonprofits that expect gross receipts to be below \$50,000 in each of the first 3 years of operation, and have total assets valued under \$250,000. For the standard Form 1023, you will need a date-stamped copy...budget for at least three years. In contrast, the 1023EZ is a self-effecting, online application that does not require the applicant to submit supporting organizing documents. After filing the Form 1023 or 1023EZ, response times can vary. For the standard Form 1023, the IRS may take anywhere from 3 to 12 months to respond, whereas with the Form 1023EZ, the IRS may respond in as quickly as 2-3 weeks.

**Fee:**

\$275 - 1023-EZ

\$400 – Form 1023, if your projected budget is less than \$10,000

\$850 – Form 1023, if your projected budget is greater than \$10,000”

### Phase 4: Once You Have Your Determination Letter

**File Charitable Solicitation Form (COR-92)**

Organizations that will be soliciting contributions in Maryland must file the [COR-92](#) with necessary attachments. Fees vary depending on the amount of money raised in the previous year.

[Maryland Charitable Organizations Division](#)

Office of the Secretary of State

State House

Annapolis, Maryland 21401

410-974-5534 or 1-888-874-0013 (within Maryland)

Other States : [http://www.multistatefiling.org/n\\_appendix.htm](http://www.multistatefiling.org/n_appendix.htm)

- Apply for Exemption from State Sales and Use Tax**  
Register with the Comptroller and obtain sales and use tax-exemption by completing the [Combined Registration Application](#).
- File for State Income Tax-Exemption**  
Submit an explanation of the nature, purpose, and scope of your organization; a copy of the IRS tax determination letter, a copy of your organization's bylaws, and a copy of the latest financial statement of your organization to:  
Comptroller of the Treasury, Revenue Administration Division  
Attention: Legal Department  
110 Carroll Street  
Annapolis, MD 21411  
1-800-MD TAXES (638-2937) and 410-260-7980.

## Phase 5: Maintain Your Nonprofit Status

- Obtain State or Local Licenses/Permits**  
For information about any licenses required, consult [Maryland Department of Labor Licensing and Regulation](#) and the [Maryland Department of Commerce](#).
- File Maryland Form No. 1 – Personal Property Return**  
Certain charitable, fraternal, educational, and religious organizations may be eligible for an exemption from state property tax. To receive an exemption application form or information about the exemption, please contact the State Department of Assessments and Taxation office for the county in which the property is located. You may find a list of SDAT local offices, additional information, and copies of the required forms on [SDAT's web site](#). This form is due by April 15 each year.
- File Form 990-N, Form 990-EZ, or Form 990 with IRS based on annual gross receipts**  
More information about choosing the right form [can be found here](#).
- [Read IRS Compliance Guide for 501\(c\)3 Public Charities](#)
- Update Solicitation Registration Annually**  
File an annual update of COR-92 within six months of the end of the organization's fiscal year. For states outside Maryland, check filing requirements separately.
- Substantiation and Disclosure Requirements**  
Organization must give notice of solicitation registration, written acknowledgement of charitable contributions, and organizations must make certain documents available publicly.

*Maryland Nonprofits Free Resource:* See Maryland Nonprofits publication, Disclose It, for more information.

- Resident Agent and Principal Office**  
Update resident agent and office information as necessary, by filing a resolution with [the State Department of Assessments and Taxation](#).

**Maintain Accurate and Complete Corporate and Financial Records**

Adopt policies that ensure proper oversight and controls on financial matters and retention of documents.

*Maryland Nonprofits Free Resources: Document Destruction and Retention Policy*  
*Maryland Nonprofits Members Only Resources: Financial Policies, Administrative Policies*

**If you Have Employees or Independent Contractors**

- Determine if your paid worker is an employee or an independent contractor. IRS guidance can be found [here](#) and [here](#). Guidance from Maryland Department of Labor, Licensing, and Regulation can be found [here](#).
- File combined Registration Application with Comptroller related to employer withholding tax and unemployment insurance
- Register Employees with Comptroller of Maryland
- Pay State Employment and Unemployment Taxes
- Pay Federal Employment Taxes
- Pay Workers' Compensation Insurance
- Display Required Posters
- Determine if you will provide a contract for employment or maintain "at will" employment status
- Establish job descriptions for each employee
- Determine whether you will pay benefits to employees (e.g., health insurance, paid time off)
- Prepare an Employee Handbook or Personnel Policy

*Maryland Nonprofits Members Only Resources: Legal Requirements Checklist, Model Employee Handbook*

**Assess property and liability insurance needs for the organization**

Assess all insurance needs for the organization, including general hazard, property, and Directors and Officers Liability.

*Maryland Nonprofits Members Only Resources: Risk Management and Insurance.*