
Nonprofit Formation Roadmap

Your phase-by-phase guide to starting a 501(c)(3) nonprofit organization.

From Holdings — AI-native business banking for nonprofits.

How to Use This Roadmap

Work through each phase in order. Some phases overlap — that's expected. Check off tasks as you complete them, and use the estimated timelines to set realistic expectations with your board and stakeholders.

Total estimated timeline: 3-6 months from decision to fully operational

Total estimated cost: \$300-\$3,400 (depending on state and whether you use legal help)

Phase 1: Foundation (Weeks 1-2)

Goal: Answer the hard questions, assemble your team, and draft your governing documents.

Tasks

Confirm nonprofit is the right structure

- Will you need tax-deductible donations? (→ 501(c)(3))
- Will you need foundation grants? (→ 501(c)(3))
- Is political lobbying your primary activity? (→ 501(c)(4))
- Want to test the idea first? (→ Fiscal sponsorship)

Write your mission statement

- Be specific: who you serve, what you do, where
- Must align with IRS exempt purposes (charitable, educational, religious, scientific, literary, public safety, amateur sports, prevention of cruelty)

- Test: Can someone read it and understand exactly what your organization does?

Recruit your initial board of directors (minimum 3)

- At least a majority must be unrelated to each other
- Identify: President, Secretary, Treasurer
- Confirm each person's commitment to attend meetings and participate
- Seek diverse skills: financial, legal, fundraising, program expertise

Draft your bylaws

- Board size, terms, and election process
- Officer roles and duties
- Meeting frequency and quorum requirements
- Conflict of interest policy (IRS requires this)
- Amendment procedures
- Dissolution clause (assets go to another 501(c)(3))

Draft articles of incorporation

- Organization name (check availability with your Secretary of State)
- IRS-compliant purpose clause
- Dissolution clause directing assets to another 501(c)(3)
- Registered agent name and address
- Incorporator name(s)

Choose your state of incorporation

- Usually your home state
- Check filing fees and processing times

Estimated Costs

| Item | Cost |

|-----|-----|

| Legal review of bylaws (optional) | \$500-\$1,500 |

| Name reservation (some states) | \$0-\$25 |

Required Documents

- Mission statement (written)
- Bylaws (drafted)
- Articles of incorporation (drafted)
- Board member list with contact information

Resources

- [IRS Exempt Purposes](#)
 - [Holdings 501\(c\)\(3\) Formation Checklist](#)
 - [National Council of Nonprofits — Starting a Nonprofit](#)
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Phase 2: Federal Filings (Weeks 3-6)

Goal: Incorporate, get your EIN, and file for federal tax-exempt status.

Tasks

File articles of incorporation with your state

- Submit to Secretary of State office
- Pay filing fee
- Request expedited processing if needed
- Save the stamped/filed copy — you'll need it for the IRS application

Apply for your EIN (Employer Identification Number)

- Apply online at [IRS.gov](https://www.irs.gov)
- Available Monday-Friday, 7am-10pm Eastern
- Receive immediately upon completion
- You'll need: SSN of responsible party, articles of incorporation
- **Cost: Free (always)**

Determine which IRS form to file

- **Form 1023-EZ** if: gross receipts ≤ \$50K/year for first 3 years AND total assets < \$250K
- **Form 1023** if: you exceed either threshold above
- Complete the [IRS eligibility worksheet](#) to confirm

Prepare and file your IRS application

- For Form 1023-EZ:

- File online at Pay.gov
- Fee: \$275
- Processing: 2-4 weeks
- 3 pages of questions

- For Form 1023:

- File online at Pay.gov
- Fee: \$600
- Processing: 3-6 months
- Requires: narrative description of activities, financial projections (3 years), bylaws, articles, conflict of interest policy, compensation information

File within 27 months of incorporation

- If filed within 27 months: exemption is retroactive to formation date
- If filed after 27 months: exemption starts from filing date only

Estimated Costs

| Item | Cost |

|-----|-----|

| State incorporation fee | \$8-\$300 (varies by state) |

| Expedited processing (optional) | \$50-\$200 |

| EIN | Free |

| Form 1023-EZ | \$275 |

| Form 1023 | \$600 |

| Legal help with 1023 (optional) | \$500-\$3,000 |

Required Documents

- Filed articles of incorporation (stamped copy)
- EIN confirmation letter (CP 575)
- Bylaws (final, signed)
- Conflict of interest policy

- Compensation details for officers/directors
- Financial projections (3 years) — for Form 1023
- Narrative description of programs — for Form 1023

Resources

- [IRS — Apply for EIN Online](#)
 - [IRS Form 1023-EZ](#)
 - [IRS Form 1023](#)
 - [Pay.gov — Submit Form 1023/1023-EZ](#)
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Phase 3: State Registrations (Weeks 4-8)

Goal: Secure state-level tax exemptions and register to fundraise legally.

Tasks

Apply for state income tax exemption

- Most states have a separate application
- Usually requires a copy of your IRS determination letter (apply as soon as you receive it)
- Some states grant provisional exemption based on your pending IRS application

Apply for state sales tax exemption

- Requirements vary significantly by state
- Some states auto-exempt nonprofits; others require a separate application
- Get your exemption certificate — you'll need it for purchases

Register for charitable solicitation (fundraising)

- Required in approximately 40 states before you can legally solicit donations
- Start with your home state
- Multi-state registration can wait until you're actively fundraising nationally
- Annual renewal required in most states

Register with your state attorney general (if required)

- Some states require separate registration with the AG's office
- Typically a simple form with your articles, bylaws, and financial information

Property tax exemption (if applicable)

- Only if you own or lease property
- Apply with your county assessor's office
- Requirements vary; typically need IRS determination letter

Estimated Costs

| Item | Cost |

|-----|-----|

| State income tax exemption | \$0-\$50 |

| State sales tax exemption | \$0-\$25 |

| Charitable solicitation registration (home state) | \$0-\$400 |

| Multi-state registration service (optional, for later) | \$2,000-\$5,000+ |

Required Documents

- IRS determination letter (or proof of pending application)
- Articles of incorporation
- Bylaws
- EIN
- Financial statements or projections

Resources

- [National Association of State Charity Officials](#)
- [Multistate Filing — Unified Registration Statement](#)
- Your state's Department of Revenue or Taxation website

Phase 4: Operations Setup (Weeks 6-10)

Goal: Set up the infrastructure to actually run your nonprofit — banking, bookkeeping, insurance, and governance systems.

Tasks

Open your nonprofit bank account

- Don't wait for IRS determination letter — you can open with articles + EIN

- Look for: no monthly fees, sub-accounts for fund tracking, ACH/wire capability
- **Holdings**: free checking, 1.75% APY, unlimited sub-accounts, AI bookkeeping, FDIC coverage up to \$3M
- See: [501\(c\)\(3\) Bank Account Requirements](#)

Set up fund tracking / sub-accounts

- Create separate accounts or tracking codes for:
 - General operating fund (unrestricted)
 - Each restricted grant or program fund
 - Reserve fund
- See: [How to Set Up Multiple Accounts for Nonprofit Programs](#)

Set up bookkeeping

- Choose software: QuickBooks Nonprofit, Aplos, or Holdings built-in AI bookkeeping
- Configure chart of accounts (revenue by source, expenses by function)
- Set up fund accounting for restricted vs. unrestricted tracking
- Assign bookkeeper or set up automated categorization

Get insurance

- **Directors & Officers (D&O) liability** — protects board members (\$500-\$1,500/year)
- **General liability** — covers property damage, bodily injury (\$400-\$1,000/year)
- **Workers' compensation** — required if you have employees (varies by state/payroll)
- **Professional liability** — if you provide services or advice

Hold your first official board meeting

- Adopt bylaws formally
- Elect officers
- Approve initial budget
- Authorize bank account opening
- Adopt conflict of interest policy
- Set regular meeting schedule
- **Document everything in meeting minutes**

- Use: [Board Meeting Agenda Template](#)

Set up donor management

- Choose a system: Bloomerang, Little Green Light, or even a spreadsheet for year one

- Track: donor name, contact info, gift amount, date, designation, receipt sent (Y/N)

- Set up [donation receipt template](#)

Create your compliance calendar

- Form 990 due date

- State annual report due date

- Charitable solicitation renewal date(s)

- Board meeting dates (quarterly minimum)

- Set calendar reminders 30 days before each deadline

Estimated Costs

| Item | Cost |

|-----|-----|

| Bank account | \$0 (Holdings: free) |

| Bookkeeping software | \$0-\$90/month |

| D&O insurance | \$500-\$1,500/year |

| General liability insurance | \$400-\$1,000/year |

| Donor management software | \$0-\$100/month |

Required Documents

- Board meeting minutes (first meeting)
- Adopted bylaws (signed)
- Conflict of interest policy (signed by each board member)
- Insurance certificates
- Bank account documentation

Phase 5: Funding (Months 3-6)

Goal: Raise your first dollars and build a sustainable funding pipeline.

Tasks

Launch your personal network campaign

- List 50-100 contacts in your network
- Write personal outreach emails (not mass blast)
- Specific ask: "I'm looking for 20 founding donors at \$100 each"
- Set up online donation page
- Follow up personally with every donor; send receipts immediately

Research grant opportunities

- Use Foundation Directory Online, Candid.org, your community foundation
- Filter by: issue area, geographic focus, grant size, eligibility (new organizations?)
- Create a tracking spreadsheet: funder name, deadline, amount, requirements, status
- Prioritize funders who explicitly support new/emerging organizations
- Use: [Grant Budget Template](#)

Submit Letters of Inquiry (LOIs)

- 2-3 page summaries of your organization and proposed use of funds
- Tailor each LOI to the specific funder's priorities
- Include: problem statement with data, proposed solution, budget summary, organizational capacity

Prepare full grant proposals

- Respond to LOI invitations with full proposals
- Standard components: executive summary, problem statement, program design, evaluation plan, budget and budget narrative, organizational background, board list
- Budget should show multiple revenue sources (funders don't want to be your only source)
- Use: [Budget vs. Actual Template](#) for tracking

Pursue corporate sponsorships

- Start local: businesses that serve your community
- Create a simple sponsorship package with clear benefits (logo placement, event recognition, social media mentions)
- Ask for \$2,500-\$10,000 per sponsor in year one

Plan 1-2 small fundraising events

- House parties, online campaigns, community events
- Keep costs under 25% of expected revenue
- Focus on donor acquisition (getting names and emails) as much as revenue

Set up recurring giving

- Monthly giving programs provide predictable revenue
- Even \$25/month x 20 donors = \$6,000/year in reliable income
- Make it easy to sign up on your website

Estimated Costs

| Item | Cost |

|-----|-----|

| Foundation Directory Online | \$0-\$200/month |

| Event costs (2 small events) | \$500-\$2,000 |

| Marketing materials | \$200-\$500 |

| Online donation platform fees | 2-3% of donations |

Grant Application Timeline

| Step | Duration |

|-----|-----|

| Research & identify funders | 1-2 months |

| Write and submit LOIs | 2-4 weeks |

| Wait for LOI response | 1-3 months |

| Write full proposal | 2-4 weeks |

| Foundation review & decision | 2-6 months |

| Receive funds | 2-4 weeks after approval |

| **Total: Research to funds received | 6-12 months |**

Required Documents

- Case statement / organizational overview
- Program descriptions with measurable outcomes

- Board list with affiliations
- Organizational budget (annual)
- Program budgets (per grant)
- Financial statements (even if just projections for year one)
- IRS determination letter
- Most recent Form 990 (after first filing)

Quick Reference: Total Formation Costs

Item	Low Estimate	High Estimate
State incorporation	\$8	\$300
IRS filing (1023-EZ or 1023)	\$275	\$600
Legal assistance	\$0	\$3,000
Initial insurance	\$900	\$2,500
Banking setup	\$0	\$0
Software (bookkeeping + donor mgmt)	\$0	\$200/month
Total one-time formation	\$283	\$3,900
Total first-year operations	\$1,183	\$6,300

Compliance Calendar (Annual, Ongoing)

When	What	Where
Annually (by Month 5 after fiscal year end)	File Form 990/990-EZ/990-N	IRS (online)
Annually (varies by state)	File state annual report	Secretary of State
Annually (varies by state)	Renew charitable solicitation registration	State AG or Secretary of State
Annually (varies by state)	File state tax return	State Department of Revenue
Quarterly	Hold board meeting + record minutes	Internal

| Annually | Board conflict of interest disclosure | Internal |

| Annually | Review and approve executive compensation | Board meeting |

| Annually | Review and approve budget | Board meeting |

| Annually | Renew insurance policies | Insurance provider |

Need Help?

- **Banking:** [Holdings for Nonprofits](#) — free checking, fund tracking, AI bookkeeping
 - **Compare options:** [Best Banks for Nonprofits](#)
 - **Full guide:** [How to Start a Nonprofit: The Complete Guide](#)
 - **IRS resources:** [IRS Charities & Nonprofits](#)
 - **State resources:** [National Association of State Charity Officials](#)
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