

Church Incorporation



*ETERNAL LIFE FELLOWSHIP MINISTRIES
& GLOBAL NETWORK*

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Millennium Ministry Concept Overview

VISION

Building People and Transforming Lives!

MISSION

**'Deliverance' by Evangelism, 'Discipleship' by Education,
'Development' by Empowerment & 'Deployment' by Enterprising.**

ETHOS

**"Whole Life of the Whole Person"
(Mind - Body - Soul)**

ASSIGNMENT

**"Worshipping God and Serving People"
Consistent – Practical – Realistic (CPR)**

FIVE FOLD MINISTRY FOCUS (Ephesians Chapter 4)

Saints, Work, Edification, Unity, Knowledge, & Faith

Disclaimer

✓All information in this presentation is provided on the most relevant information, while it is generally believed to be correct, ETERNAL LIFE FELLOWSHIP MINISTRIES & GLOBAL NETWORK assumes no liability for its use and does not guarantee that the information within is for your specific situation or state.

✓As in all legal and tax matters, if there are any questions, professional advice should be sought. Two states do not require articles of incorporation for churches. They are Virginia and West Virginia.

Overall Course Objectives

- **Learn** – The pros and cons of incorporating your church.
- **Discover** – The importance of incorporating your church and its ministry outreach.
- **Explore** – The benefits of incorporation.
- **Plan** – To to evaluate the needs of your church and whether incorporation is for you.
- **Execute** – A plan to incorporate by forming committees to handle the paperwork.

Why Consider Incorporation

- There are a great number of specific areas where church planters will want to seek legal advise.
- Incorporation: “Is not where you ought to put your head in the sand and pretend that something will go away, especially if you pray hard enough!”

Bill Caldwell *Church
Administration Handbook,*
Page 208

Why Consider Incorporation?

Reasons to establish your church as a legal entity:

- Identity
- Protects creditors
- Able to hold property in its own name
- Representation
- Obtaining loans
- Members and Trustees Liability protection
- Tax Filing/Tax Savings
- Obtaining Insurance coverage
- 501(c)(3) Status

Is it Required?

- A new church or any other church for that matter is **NOT** required to become incorporated as a nonprofit religious entity.
- Each state has its own regulations regarding this issue.
- The process usually involves assembling of members for the specific purpose of approving the documents relating to incorporation.
- Some but not limited to will include a Charter, set of Bylaws, and minutes which detail the conduct of the meeting that approved the incorporation.

Is it Required?

- A new church should look at the advantages of incorporation.
- The advantages may outweigh the possibility of problems the eyes of the state later on down the road.
- The advice of an attorney will be helpful in determining the proper procedure to follow for a new church in your state.
- The good and bad news is that there is a lot of information available on state Web sites dealing with non-profit organizations.
- There is not really a direct method to obtain the exact information needed for a non-profit church organization.
- Legal advice is key to navigating the process of incorporation.

Why Consider Incorporation?

Three things to consider before you start:

Before you embark on reserving, buying or legalizing anything, you should consider three things that may influence your decisions:

- Church vision and mission statements
- Church name/Church Web site and e-mail
- Include the church theme in the name or not?

Why Consider Incorporation?

Before you start anything, Fast and Pray! Then revisit your church vision and goals as to what your church is going to become, and consider if this is represented in the general theme and your mission lines up with the word of God which is the best plan to follow.

Spend as much time as required fasting and praying to ensure you are in alignment with the vision God has given to you! Remember you are putting God's perfect vision into action in an imperfect world.

Be steadfast and unmovable but most of all humble!

Why Consider Incorporation?

- ✓ Your church name may or may not reflect your vision or theme.
- ✓ The closer your name matches your vision, the more marketing clout and strategies you have.
- ✓ You may want to consider a church name that conveys WHAT you want to be as a church/ministry (vision) and a theme that conveys HOW you get there (strategy).

What's in a name?

- ✓ Consider your intended target people group.
- ✓ For example, church names including Connection, Gathering, Bridge, Community, Fellowship, etc. are more seeker-orientated
- ✓ There's Baptist, Tabernacle, Worship, etc., which may appeal more to people that are comfortable with traditional church.

Should a name be unique?

Most states, uses the first two significant words in the name as the unique legal identifier for an entity.

Example: Cumming Connection Church, the two words in the name “Cumming” and “Connection” would be your unique identifier.

Another example: If you were Mountain Lake Community Church your unique identifier would be “Mountain” and “Lake”.

Names should be unique and not too long.

At this point you likely will start interacting with your Secretary of State's office at: www.sos.state.INSERT STATE ABBREVIATION.us/corp/index.shtml

Where to start?

Guides, forms, contact information, FAQs and even the start of an online filing system are available on the Secretary of State Web sites.

Most states have similar Web sites and resources.

To read and print PDF files, you may need to download and install the latest free version of Adobe Acrobat reader.

How to verify a name is available.

- How do I check to see if a name is available.
- Visit your Secretary of State's website and do a name search. You can also call and they can tell you over the phone whether a name is available or not.
- No need to reserve your new name. When you submit your Articles of Incorporation this will secure your name. With this filed no one else can use your name.
- For more detailed information on reserving names following the instructions from your Secretary of State's website.

What about a Website & Email?

- Having a Website and email is essential!
- Most people have Web and e-mail access at home or at work.
- A Website is yet another means of breaking down the barrier to unchurched people - a safe glimpse into a church without the brave step of actually attending a service.

What about a Website & Email?

- Web site names or domains are inexpensive – you have to pay an annual fee. You can register domain names with www.godaddy.com or www.webex.com
- Hosting can also be obtained at special pricing for ministries.

What else do you need?

There are three documents you need to file - one with the state and two with the IRS.

1. Articles of Incorporation
2. Application for an Employer Identification Number (EIN) (or Federal Tax ID) - IRS Form SS-4 (EIN is needed to open a bank account)
3. Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code - IRS Form 1023

Articles of Incorporation

These are very important for a number of reasons:

- Legally defines a non-profit organization, for liability limitation, business dealings, and tax exemption status.
- Needed to open a bank account in the church's name - the account is designated as a non-profit organization account.
- Specifies what the church does (to a certain extent) and who the founding principals are, including the Incorporator, and establishes fiduciary responsibilities of the ministry.
- Most states require two original copies of the Articles of Incorporation need to be filed; one copy will be returned when approved.

Articles of Incorporation

- In most states, Articles of Incorporation can be simple and broad in scope. There are some key articles that must be phrased a certain way to assure tax exempt status. You must also have a minimum of three (3) US residents as Directors to incorporate.
- See the following form for the basic requirements: www.sos.state.INSERT STATE ABBREVIATION.us/corp/forms/202.pdf.
- It is better to keep statements broad and brief in your Articles you can be more specific in your ByLaws and standard operating procedures.
- ByLaws and standard operating procedures are used to define your church's purpose, rules and procedures.
- Remember the KISS Rule! (Keep It Simple Saints)

Special Note!

- Do not confuse the reference term “members”.
- The reference ‘members of a corporation’ (non-profit or otherwise) is not synonymous to church members or members of an organization.
- Consider it this way... SAM's Club, for example. You can become a member of SAM's Club, but that does not mean you are a member of the WALMART Corporation, with all the legal implications thereof.

Application for an Employer Identification Number (EIN)

- Application for an Employer Identification Number (EIN) (or Federal Tax ID) - IRS Form SS-4
- Once your Articles of Incorporation have been approved, you will need to apply for an Employer Identification Number (EIN).
- This is required to open a bank account, file tax returns, etc.
- If the church eventually employs staff, then the EIN is needed to put them on payroll.
- The EIN Application form - IRS Form SS-4 - is available at www.irs.gov/pub/irs-pdf/iss4.pdf. The SS-4 form contains all the help needed to file.
- With your Articles of Incorporation and EIN in hand, you can now open a bank account for your new legalized church entity. (Keep good records!)

Application 501(c)(3) Recognition

IRS Form 1023

As a church or "integrated auxiliaries of churches, and conventions or associations of churches", you are exempt from filing IRS Form 1023; however, for other reasons, you may want to file:

- States, generally, recognize an IRS-approved Form 1023 as a basis for state tax-exemption, including franchise and income tax.
- Helps considerably with state tax exemption (like franchise tax).
- Allows the church to obtain special pricing on many products, including computer software and hardware.
- It settles any discussion with authorities on whether your church enjoys tax exemption status.

What if we don't file an IRS Form 1023?

- Regardless of whether you file an IRS Form 1023, your State may send a separate report for you to file, confirming your non-profit organization information.
- This form is usually sent to the Registered Agent with a 30-day deadline and carries a fee to file. This form may be sent by the Secretary of State annually.

What if we don't file an IRS Form 1023?

- Staff "employed" by the church? Set up payroll. (Keep good records!)
- You can either do this yourself with one of the many church management software applications.
- Recommend you outsource this task to a specialized third-party firm that may provide discount to churches.
- An alternative, particularly in the early stages of a church where most people involved are either bi-vocational, receiving offerings, or are considered self-employed, is to treat any income as supplemental and file IRS Form 1096, enclosing individual 1099-MISC forms. IRS Form 1096 can only be obtained from the IRS in the mail. (Keep good records!)
- An example can be obtained from the IRS Web site: www.irs.gov/pub/irs-pdf/f1096_02.pdf, but cannot be used to file.

What if we don't file an IRS Form 1023?

- Whether you have filled in IRS Form 1023 or not, you should be exempt from state taxes. You may or may not be exempt from local taxes.

To obtain a ruling on exemption status, you need to contact:

IRS - Exempt Organizations
1100 Commerce
Dallas, Texas 75242
(214) 767-6023 [Customer Service]
(214) 767-0040

- If you have filed an IRS Form 1023 and obtained an IRS approval of your tax exemption status, it makes dealing with the state, local authorities, stores, etc. on tax issues a whole lot easier.

What if we don't file an IRS Form 1023?

- If the church does not have a clear ruling on its tax exemption status and has a gross income of less than \$150,000 a year, in some states, it does not need to pay state franchise tax, but DOES need to file a state franchise tax form. States may vary.
- In some states, there is no such thing as a "tax exemption number", which you will hear all the time when dealing with the outside world. The church's EIN (a.k.a. Federal Tax ID) is the only tax-related identification number the IRS or state will assign you.

Keep Excellent Accounts

- Very important that the church maintains excellent accounts.
- As a non-profit church organization, the church will come under increasing scrutiny in the years to follow- not only from the IRS, state and local authorities, but also from the media and the community at large.
- To avoid any question about status and integrity, it is highly recommended that the church keep its books in as good a shape as any established business.
- This will ensure that the church's official dealings at least are beyond reproach.

Keep Excellent Accounts

- If church management software is not used to keep accounts, Intuit's QuickBooks is highly recommended.
- Other accounting systems are also available. QuickBooks Pro is probably the most widely used and flexible package available.
- QuickBooks can also be used for payroll if it is not available with the church management software or is not outsourced.
- Intuit's less expensive Quicken can be used as a lower level alternative to QuickBooks.

501 (C)(3) Application Process

IMPORTANT- IRS fees changes. Please make sure you are using the latest version of the Form 1023 application for 501(C)(3) status, and pay the fee.

If the correct fee is not paid, your application will be sent back to pay the appropriate fee, which will delay your exemption processing.

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