Dissolving a Nonprofit Organization:

A 5-Step Guide to a Compliant Dissolution

Like for-profit businesses, nonprofit organizations face closing their doors due to a wide range of factors, everything from mounting costs, which make carrying on operations unsustainable, to missions being fulfilled, leaving services no longer needed.

In this guide, we'll walk you through the five steps necessary to ensure that you dissolve your nonprofit correctly and share tips for making this process as smooth as possible.

STEP 1: MAKING A BOARD DECISION

When a nonprofit is facing the decision to dissolve, it's the responsibility of the board of directors to vote to decide on dissolution during a formally convened meeting of the board to affirm that this is the correct path forward. In some cases, approval by voting members may also be required depending on the organization's bylaws and state nonprofit law.

Through this process, it's important to review what the organization's articles of incorporation and bylaws state about dissolution to ensure that the process is followed in accordance with them.

STEP 2: CREATING THE PLAN OF DISSOLUTION

After the board approves the decision to begin dissolving the nonprofit, a plan of dissolution will need to be made, which will outline all assets and liabilities, and a description of how the liabilities will be satisfied.

Then, a Notice of Intent to Dissolve must be filed with the Secretary of State, or your state's specific regulatory body. This filing, which often involves a fee, officially starts the dissolution process and may trigger the requirement to notify creditors and other stakeholders of the organization's intent to dissolve.

As part of the organization's final federal tax filing, you'll need to complete Schedule N of Form 990 or 990-EZ, which reports:

- A description of your nonprofit's assets,
- The date of distribution,
- The fair market value of the assets, and
- Information about the recipients of the assets.

Note: The process of dissolving a nonprofit is heavily influenced by state-specific regulations, which must be followed thoroughly.

STEP 3: SATISFYING DEBTS AND OBLIGATIONS

Next, your organization will need to settle all debts and fulfill all obligations. This includes:

- Paying off all debts
- Cancelling leases and/or contracts
- Final payroll and benefits termination (if your organization has employees)

In this step, you'll need to determine if your organization will be able to satisfy all debts with existing cash or whether assets will need to be sold to cover your liabilities. In extreme circumstances, if your organization cannot satisfy the debts with your remaining assets, bankruptcy may be the best option, though filing for bankruptcy must be done before any actual dissolution paperwork is filed.

STEP 4: DISTRIBUTING ASSETS

After settling any remaining liabilities, federal law requires tax-exempt charities to distribute assets to:

- Another 501(c)(3) organization,
- Another overtly charitable purpose,
- The federal government, or
- A state or local public purpose

Assets include cash, tangible property, such as electronics, vehicles, or office furniture, and intangible property, such as data or intellectual property.

Note: The transfers of these assets may also invoke legal documents such as property deeds, contracts, and trademark registrations.

One of the most important parts of this step is noting that your nonprofit cannot give any of its property away to individuals, especially to board members, employees, volunteers, etc. Though it can sell the assets, preferably for a fair market value, to individuals or entities.

As your organization goes through distributing its assets, it's key that the distribution is in accordance with:

- State and federal law,
- The bylaws of the nonprofit or the articles of incorporation, and
- The plan of dissolution

STEP 5: COMPLETING STATE AND FEDERAL FILINGS

Finally, you'll need to complete and file final tax returns with the IRS and your state. As part of this process, you'll file the organization's final Form 990 (or 990-EZ/990-PF, as applicable) with the "Final Return/terminated" box checked with a copy of the dissolution documents attached.

As previously mentioned, ensuring compliance with state-specific reporting and filing requirements related to the dissolution is imperative. This could include:

- The Attorney General or other state charity official that regulates charitable solicitation registration
- The state taxation office
- The state department of labor (if the nonprofit had employees)
- State licensing authorities

Due to the state-specific requirements, it's often best to seek counsel from a professional with experience in nonprofit dissolution in your state.

Note: Larger nonprofits may have obligations under state WARN laws (Worker Adjustment and Retraining Notification) as they dissolve.

COMMUNICATION PLANNING

After the board determines that dissolution is the best path forward, it's imperative to communicate the decision in a reasonable amount of time with as much information as possible as appropriate. Early and transparent communication is key to ensuring that this process, which can already be emotionally challenging, is as seamless as possible.

First, ensure that the decision is communicated to staff and employees within a timeframe that allows time for questions and communicating about when the last day of work will be and about unemployment compensation.

Next, create a communication plan for those who benefit from your nonprofit's services. It's often best to designate a spokesperson who can field information to and from the community and can assist with planning as far in advance as possible.

Finally, ensure that your volunteers, donors, sponsors, and vendors are informed of the dissolution, as well. Provide all donors with gift acknowledgments for the period prior to the closure.

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As you dissolve your nonprofit, remember that there are many legal and tax considerations, and partnering with the right professionals can make all the difference as you go through this process.

Our team at SEK is here to help to ensure that your nonprofit complies with all financial requirements, preventing unintended consequences and complications.

Please contact any member of our Nonprofit team to get started.

SEK CPAs & ADVISORS | Guidance You Can Count On.

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