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Dissolving a Nonprofit Corporation

Dissolving an organization can be a difficult and emotional process, but there are steps you can take to ensure that the process of winding down your nonprofit is as smooth as possible.

Perhaps the organization has fulfilled its mission. Perhaps there are insurmountable challenges to the organization's sustainability. Perhaps another organization is adequately fulfilling the needs that the nonprofit was created to address, or your nonprofit is merging with another nonprofit and will be dissolving as a result. Whatever the reason to wind down operations, the steps we've outlined below will help you plan the process.

*Disclaimer: Dissolution is a change in your nonprofit's corporate status that is governed by state law. We strongly recommend seeking guidance from a lawyer, accountant (regarding final IRS filings), or other professional advisor who has experience with state laws relating to dissolution of tax-exempt organizations and also will be able to guide you through the necessary steps to notify the IRS at the appropriate time that the nonprofit is no longer operating. **This article does not constitute legal advice.***

Breaking down the Steps

As you consider the steps below, you should, of course, also consider the impact on the community. There are likely to be volunteers and staff members, board members, and those served by the nonprofit's mission who will have significant adjustments to make when the nonprofit closes its doors. Additionally, there are likely to be questions about why the organization is winding down, so part of the process will be "managing the message." Propel Nonprofits' article [Strategic Sunsetting](#) offers good guidance under the section "Communications."

Step #1 The Role of the Board of Directors

The board of directors will vote to dissolve the organization, but its job doesn't end there. Before making an important decision such as dissolving a nonprofit, the board of directors needs to reach consensus and take an official corporate action (a vote that is documented in minutes of the meeting) to affirm that dissolution is the right path. Usually this is accomplished when the board votes to approve a "plan of dissolution" (which requires that the plan be drafted first! See step #2). The board's role in deciding whether or not continuing operations is in the best interest of the organization starts long before the plan is drafted, and continues after the vote to adopt the plan.

- In some cases, shutting down permanently is not the only option. Nonprofits, just like for-profits, can choose to reorganize their structure through the [bankruptcy process](#).
- Make sure to check what the organization's own articles of incorporation (or "certificate of incorporation") and bylaws have to say about dissolution.

Practice Pointers

Board members may not be aware that the process of "winding down" the organization takes time, and in fact is likely to continue for *several months* after operations have ceased, so it is important that at least the minimum number of board members required by the bylaws remain in place to help with the dissolution process.

The organization is not officially dissolved until the dissolution papers are filed with the state, and other final steps, such as filing the final annual report (Form 990) with the IRS, are completed. There may be additional corporate actions that will need to be taken well after the last day of active operations.

How the board communicates with the community, employees, volunteers, and other stakeholders (including donors) is important. It may be challenging to balance transparency with respecting confidentiality, but the public will expect the nonprofit's board to be transparent while also respecting the confidential nature of some financial or personal elements of the winding down process.

- It is often prudent to [name a spokesperson and establish key agreed-upon talking points](#) so communications coming from the organization are consistent. (Nonprofit Risk Management Center)

Step #2 Drafting the Plan of Dissolution

If the leadership of the organization decides that winding down is the best option, the organization will need a “plan of dissolution.” A plan of dissolution is essentially a written description of how the nonprofit intends to distribute its remaining assets and address its remaining liabilities. Eventually, a “certificate” or “articles of dissolution” will be filed with the state agency that handles corporate registrations. Filing a plan of dissolution notifies the state of incorporation of the organization's plans to dissolve.

Practice pointers

- The state may provide a template form that the nonprofit can use as its official plan of dissolution (such as this [very basic plan of dissolution from Illinois](#)) Your organization's plan should include all the assets and liabilities you can identify and describe how liabilities will be satisfied, which nonprofits will receive the remaining assets, and the fair market value of those assets. It's a good idea for the board to also document who will be responsible for what, and by when, in order to maintain accountability throughout the dissolution process.
- Schedule N requires a dissolving nonprofit to report **a description of the assets, the date of distribution, the fair market value of the assets, and information about the recipients of the assets**, so Schedule N serves as a good guide for what details need to be documented by the organization as it is distributing its assets.
- Be sure to know the procedure in your state. In several states a nonprofit can't just file its plan of dissolution without also going through other steps, such as filing a *petition in court* ([New York](#)) or *seeking permission from the attorney*

general ([Michigan](#)) for approval of its plan.

- Here's a [list of state government agencies](#) that handle incorporations as well as the other end of the lifecycle - dissolutions.
- After the "certificate" or "articles of dissolution" are filed with the state, the state will stamp the articles of dissolution as "filed" and return the official document to the address on record.

Step #3 Paying the nonprofit's liabilities

All of your nonprofit's liabilities, including taxes, need to be identified. Don't forget future contractual obligations. Next, make a plan to pay off current debts and terminate recurring or future liabilities. (Some nonprofits have future restricted revenue or future liabilities on their books. This is where the expertise of an accountant may be needed!). Determine whether all of these obligations can be satisfied by existing cash or whether some assets need to be sold to pay the liabilities.

- If your organization cannot satisfy its debts and has insufficient remaining assets, [bankruptcy](#) might be the best option.
- Final financial statements should reflect no remaining liabilities (or assets).

Step #4 Distributing the Assets

[Federal law requires](#) a tax-exempt charitable nonprofit that is dissolving *to distribute its remaining assets ONLY to another tax-exempt organization or to the federal government or a state or local government for a public purpose*. Therefore, the dissolution process necessitates identifying other nonprofit(s) or government entity to accept any assets of the dissolving nonprofit. You will need an inventory of assets to manage this part of the process smoothly. "Assets" could include cash, tangible property such as vehicles or office equipment, and/or intangible property such as data or intellectual property. The transfer of assets may also invoke legal documents such as property deeds, contracts, and trademark registrations.

This means that in the dissolution process your nonprofit cannot give any of its property away to individuals, including board members, other volunteers, employees, or those served.

The nonprofit can, however, sell its assets, as long as the individual or entity purchasing the asset is paying a reasonable amount, ideally the “fair market value.”

- Start with an inventory of assets, then plan which assets will be sold/transferred/contributed.
- Some assets may require external appraisals/valuations, while the monetary value of others will be straightforward.
- Don’t overlook trademark registrations as a potential asset that need to be transferred.
- Document all transfers and sales, noting the fact that transfers of assets are only to other entities with tax-exempt public charity designation (501(c)(3)) or to a federal/state/tribal/local government.

Practice Pointers

- It is key that all remaining assets be distributed in a manner that is consistent with 1) federal and state law, 2) your organization’s bylaws or articles of incorporation, and 3) the plan of dissolution.

Step #5 Other Legal Considerations

When any entity winds down there are legal implications related to termination of leases and other contracts such as those relating to operations (i.e., the physical plant), programs, financial management (i.e., the nonprofit’s auditor), and potentially human resources (i.e., independent contractors and consultants).

Practice Pointers

- Read through each of your nonprofit’s existing contracts to determine the appropriate ways to handle non-renewal or termination of the contract, noting how much notice is required to terminate each contract, as well as any penalties that your organization will be responsible for as a result of early termination.
- After the board makes the decision to wind down, the organization should notify employees who are likely to have questions ranging from the timing of their last day of work to their eligibility for unemployment compensation, so be prepared to help them with their own employment transition.

- Communicate through designated spokespeople with beneficiaries of the nonprofit's services so they can make alternative arrangements as far in advance as possible.
- Your organization should also inform volunteers, donors, sponsors, and vendors about the decision to wind down. Make sure to provide all donors for the time period prior to closure with [gift acknowledgements](#).

STEP #6 Notify Other State Agencies

Once the Articles/Plan of Dissolution is filed with the state, contact state authority(ies) to inform those offices that the nonprofit is no longer operating. State agencies that may be relevant for your nonprofit include the Attorney General or other state charity official that regulates charitable solicitation registration, the state taxation office, state department of labor (if the nonprofit had employees), and any state licensing authorities, such as department of health or human services, that may have accredited or licensed the nonprofit's activities. Larger workplaces may have obligations under state WARN laws (Worker Adjustment and Retraining Notification).

Step #7 Notify the IRS

The next step is to let the IRS know that the organization is officially dissolved in its state of incorporation.

The way to [inform the IRS of the organization's dissolution](#) is by filing the organization's final IRS Form 990 (and 990-T if applicable). The Form 990 is due within 5 months and 15 days after the last day of the organization's most recently completed fiscal year, but if a nonprofit closes its doors mid-year, it can file the 990 as soon as it has completed all the state dissolution requirements, even if the fiscal year is not yet over. Form 990-N filers should file a final 990-N for the most recently completed fiscal year.

Note: if your organization files either the regular IRS Form 990 or 990-EZ:

- Under Box B on the header of the first page, you must check the box that states **"Final return/terminated."**

- Submit [Schedule N](#), which documents the tax-exempt entity(ies) to which your organization is transferring its remaining assets.

For groups closing their doors before applying for tax-exempt status

If your organization never applied for tax exempt status but received an “EIN” (employer identification number), send a letter to the IRS requesting termination of the organization’s EIN account. If you have a copy of the EIN Assignment Notice, include that with the letter. If not, be sure to include the complete legal name of the organization, address, and EIN.

Additional Resources

- [50-State Guide to Dissolving a 501\(c\)\(3\) Corporation](#) (Nolo)
- [Considering closure](#) (Kate Harris, Kate Harris Group, and Kate Piatt-Eckert, Mission Sustainability Initiative at Forefront)
- [Closing down the right way](#) (Blue Avocado)
- [Nonprofit Dissolution: What to Do When Closing the Doors](#) (Nonprofit Quarterly)
- [Strategic Sunsetting](#) (Propel Nonprofits)
- [Termination of an Exempt Organization](#) (IRS)

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