



Guide to Dissolving a Nonprofit

Introduction

For many reasons, a nonprofit may decide to dissolve and cease operations. This guide focuses on the key steps to take to follow the voluntary legal dissolution under Subchapter F under Pennsylvania law. While this guide mentions tax issues, it does not serve as a replacement for an in-depth analysis of your nonprofit corporation executed by a tax professional. Additionally, this guide is not intended to serve as legal advice, as the process for dissolving a nonprofit is complex and involves complex legal and tax issues. If you are considering dissolving a nonprofit, you should seek legal advice independent of this guide.

Key Issues

1. Adoption of a plan of Liquidation and Dissolution (Mandatory)

- To dissolve the nonprofit, the board of directors or members of the nonprofit must draft and approve a plan outlining the steps to dissolve. To start the process, a nonprofit corporation must¹:
 - Have a petition from 10% of its voting members recommending voluntary dissolution; **or**
 - Have an action through a majority of its board of directors; **or**
 - Follow any other methods for proposing or adopting a dissolution resolution provided for in the corporation's bylaws.
- If a nonprofit has members, then all members **must** be given notice of the special meeting, and the resolution is adopted upon majority approval. If there are no members, then approval of the plan is adopted with a majority vote of the board of directors.

¹ 15 Pa.C.S. § 5972.

2. Winding-Up (Mandatory)

- Once the boards of directors or members approve the dissolution process, then the nonprofit must wind-up operations. Common activities involved in winding-up operations include collecting on all accounts, converting assets to cash and paying all liabilities. Additionally, there are several activities **required** by PA law:
 - A nonprofit **must** mail a notice of dissolution by certified or registered mail to each creditor or claimant.²
 - A nonprofit in Philadelphia **must** mail a notice of dissolution by certified or registered mail to City of Philadelphia, Municipal Services Building, 1401 J.F.K. Boulevard, Public Services Concourse, Philadelphia, PA 19102.
 - If the nonprofit has a place of business in another municipality, then it **must** send notice there as well.
 - The nonprofit **must** also advertise the dissolution in a local county law reporter and in a general circulation newspaper to provide notice to creditors.³

3. Distribution of Assets (Mandatory)

- After creditors and claimants are paid, and the nonprofit has fulfilled its obligations, it must distribute the remaining assets. Distributions cannot be diverted from the intended charitable purpose without court approval.⁴
- A nonprofit may distribute their remaining assets to organizations that closely align with the nonprofit's mission and purpose. If the nonprofit is a 501(c)3, then the assets must be distributed to another 501(c)3.⁵ The nonprofit should provide notice, including the plan of dissolution, to the Attorney General of any distribution to another charitable organization.
- **If a nonprofit has over \$100,000 in remaining assets, then Orphans' Court must also approve distributions.⁶ Please consult an attorney for the additional requirements.**

4. Tax Clearance (Mandatory)

- A dissolved nonprofit seeking to dissolve **must** submit all tax forms due **and** pay all taxes and charges.
- The nonprofit **must** then apply for tax clearance certificates from both the PA Department of Revenue and the PA Department of Labor and Industry.

² 15 Pa.C.S. § 5975(b); 15 Pa.C.S. § 5977(b)(8).

³ 5 Pa.C.S. § 5975(c).

⁴ 15 Pa. C.S. 5547(b); 15 Pa.C.S. § 5976(b).

⁵ 20 Pa.C.S. § 7740.3(b) ; 15 Pa. C.S. § 5547(b).

⁶ Pa. O.C. Rule 5.5.

5. Articles of Dissolution (Mandatory)

- After the nonprofit discharges all liabilities, the remaining assets are distributed, and the nonprofit has received tax clearance then the nonprofit must file Articles of Dissolution with the Pennsylvania Department of State.⁷ The Articles of Dissolution must include:
 - name of the nonprofit and the address of its registered office;
 - names and addresses of its directors and officers;
 - the manner in which the proposal to dissolve voluntarily was adopted by the nonprofit;
 - a statement that all liabilities have been discharged and the assets of the nonprofit are sufficient to discharge its liabilities;
 - a statement that all the remaining assets of the nonprofit have been distributed;
 - a statement that no actions or proceedings are pending against the nonprofit in any court, **or**
 - adequate provision has been made for the satisfaction of any judgment or decree that may be obtained against the nonprofit in each pending or proceeding action; **and**
 - a statement that the required notice was sent to each known creditor and claimant and to each municipality in which the nonprofit has a place of business in the Commonwealth.⁸

6. IRS Notification

- If the nonprofit is tax exempt, then it must inform the IRS of the dissolution in the appropriate Form 990. The final tax filings should include certified copies of the articles of dissolution, the plan of dissolution and the formal authorization of dissolution. Additionally, the nonprofit should disclose any of the following items in Schedule N of Form 990:
 - a description of any transferred assets and transaction fees;
 - the asset distribution date ;
 - the assets' fair market value; and **if applicable**
 - disclosures if an **officer, director, trustee, or key employee** of the entity is, or is expected to be, involved in the successor or transferee organization.

⁷ 15 Pa. C.S.A. § 8872(f).

⁸ 15 Pa. C.S. § 5977(b).

Useful Links

- For an overview and other resources of dissolving a nonprofit:
<https://www.councilofnonprofits.org/tools-resources/dissolving-nonprofit-corporation>
- Tax Clearances:
<https://www.revenue.pa.gov/Pages/default.aspx>
- Public Notice in a County Law Reporter:
<https://www.law.com/thelegalintelligencer/static/place-a-public-notice/>