

Questions about Operating as an Exempt Organization

To ensure that they further favored purposes or conduct favored activities, tax-exempt organizations are subject to limitations on the types of activities in which they may engage. In addition, exempt organizations must notify the IRS of material changes in their purposes or activities, so that the IRS can determine whether those changes affect the organization's tax-exempt status.

1. **What reports and returns is an exempt organization required to file annually?**

Most exempt organizations are required to file [annual returns](#).

2. **What records must a tax-exempt organization keep?**

An exempt organization must keep books and records needed to show that it complies with the tax rules. The organization must be able to document the sources of receipts and expenditures reported on its annual return and on any tax returns it must file. Records must support income, expenses, and credits reported on exempt organization annual returns and tax returns. For example, an organization needs to keep records of revenues derived from, and expenses attributable to, an unrelated trade or business so that it can properly prepare [Form 990-T](#), *Unrelated Business Income Tax Return*, and calculate its [unrelated business taxable income](#).

Remember, even if 990-N is filed, or no return is filed, records must be maintained showing activities conducted, income received and expenses incurred.

Books and records must be available for inspection by the IRS. If the IRS examines an organization's returns, the organization must have records to explain items reported. Having a complete set of records will speed up the examination.

For more information about required records, see [Publication 4221-PC](#), *Compliance Guide for 501(c)(3) Public Charities*, [Publication 4221-PF](#), *Compliance Guide for 501(c)(3) Private Foundations*; or [Publication 4221-NC](#), *Compliance Guide for Tax-Exempt Organizations (other than 501(c)(3) Public Charities and Private Foundations)*.

3. **Are there limitations on the activities in which a tax-exempt organization may engage?**

Depending upon the nature of its exemption, a tax-exempt organization may jeopardize its tax-exempt status if it engages in certain activities. For example, section 501(c)(3) charitable organizations may not [intervene in political campaigns or conduct substantial lobbying activities](#). See [Types of Tax-Exempt Organizations](#) or [Publication 557](#) for more information.

You may also request a ruling regarding the effect of a proposed transaction on an organization's tax-exempt status. See [Revenue Procedure 2011-4](#) (or latest update) for the procedures to request a ruling; and our [user fee page](#), which explains the user fee charges for such rulings. For more information about request procedures, see [New Form 8940 for Miscellaneous Determination Requests](#).

4. Can a tax-exempt organization endorse candidates for public office?

The type of tax exemption determines whether an organization may endorse candidates for public office. For example, a section 501(c)(3) organization may not publish or distribute printed statements or make oral statements on behalf of, or in opposition to, a candidate for public office. Consequently, a written or oral endorsement of a candidate is strictly forbidden. The rating of candidates, even on a nonpartisan basis, is also prohibited. On the other hand, a section 501(c)(4), (5), or (6) organization may engage in political campaigns, provided that such activities are not the organization's primary activity.

In addition, section 501(c) organizations that make expenditures for political activity may be subject to tax under section 527(f). For more information, please see [Election Year Issues](#).

5. What is the difference between a private foundation and a public charity?

Every section 501(c)(3) organization is classified as either a private foundation or a public charity. Private foundations and public charities are distinguished primarily by the level of public involvement in their activities.

Public charities generally receive a greater portion of their financial support from the general public or governmental units, and have greater interaction with the public. A private foundation, on the other hand, is typically controlled by members of a family or by a small group of individuals, and derives much of its support from a small number of sources and from investment income. Because they are less open to public scrutiny, private foundations are subject to various operating restrictions and to excise taxes for failure to comply with those restrictions.

Under the tax law, a section 501(c)(3) organization is presumed to be a private foundation unless it requests, and qualifies for, a ruling or determination as a public charity. Organizations that qualify for public charity status include churches, schools, hospitals, medical research organizations, publicly-supported organizations (i.e., organizations that receive a

specified portion of their total support from public sources), and certain supporting organizations.

For more information, see [Life Cycle of a Private Foundation](#); [Life Cycle of a Public Charity](#); and our [on-line minicourse](#) on foundation classification.

6. **What must a 501(c)(3) organization do to be classified as a publicly supported organization (rather than as a private foundation)?**

A section 501(c)(3) organization may be classified as a public charity (rather than as a private foundation) on the basis that it is publicly supported. An organization is considered [publicly supported](#) if:

1. It normally receives a substantial part of its support from a governmental unit or from contributions from the general public; or,
2. It normally receives more than one-third of its support from gifts, grants, contributions, or gross receipts from activities related to its exempt purposes, and not more than one-third of its support from gross investment income.

In addition, the organization must meet the requirements of detailed support tests.

Generally, an organization computes its support over a five-year period that includes the current tax year. The organization must establish that it meets the public support test by showing that it is publicly supported on its [Schedule A](#) to Form 990, *Return of Organization Exempt From Income Tax* or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, if it is required to file one of those returns. For more information, see our [on-line mini-course](#) on foundation classification, and [990-N filer need not file Schedule A](#).

7. **Must an exempt organization notify the IRS if it changes its purposes or activities?**

Once the IRS recognizes an organization's tax-exempt status, it must [notify](#) the IRS if it amends its organizing documents or by-laws, or materially changes its activities from those described in its exemption application. See [Life Cycle of an Exempt Organization](#) for more information.

8. **What must an exempt organization do if its name or address changes?**

If the organization files an annual return (such as Form 990 or 990-EZ) it

must report the changes on its next return. To report a change in an organization's name, see [Change of Name –Exempt Organizations](#). For information about reporting an organization's address change see [Change of Address – Exempt Organizations](#). The [EO Determinations Office](#) can issue an [affirmation letter](#) showing an organization's new name and/or address and affirming the section of the Internal Revenue Code under which IRS records show the organization as tax-exempt and whether contributions to the organization are deductible.

9. **Must an organization whose corporate charter is reinstated after being administratively revoked or suspended by the state submit a new exemption application?**

No. If a corporation is reinstated by the state after an administrative suspension or dissolution of its corporate charter, its exempt status may be reinstated without the need for the corporation to reapply. The organization must submit evidence from the state that its charter has been reinstated, indicating the effective date of reinstatement. In addition, the organization should provide evidence that it has complied with any filing requirement for annual returns during the period during which its corporate status was administratively suspended or dissolved.

If, however, an organization's exempt status has been [automatically revoked](#) for failing to file annual returns, exempt status cannot be reinstated unless it submits a new exemption application, even if the state reinstates its corporate status.

10. **How can I get a copy of my organization's exemption letter?**

You may request an [affirmation letter](#). The affirmation letter serves the same purpose for grantors and contributors as the original determination letter.

If the affirmation letter will not meet your needs and you wish to obtain a copy of the original determination letter, you must send a written request to the EO Determinations office in Cincinnati. The request should be submitted using Form 4506-A, or in a letter containing the name and employer identification number of the organization along with the name, address, and phone number of the requester. Securing a copy of the original determination letter to send to you may take up to 60 days or longer. See the Form 4506-A [instructions](#) for more information.

As discussed in [Publication 4573](#), *Group Exemptions*, subordinate organizations under group exemption rulings should contact the central organization that holds the group ruling to obtain confirmation of their status as members of the group.

11. May an educational institution furnish Form 1098-T electronically?

Regulations provide that institutions required to furnish [Form 1098-T](#), *Tuition Statement*, may furnish the statement in an electronic format in lieu of paper, if certain requirements are met. The recipient must affirmatively consent to electronic format; in addition, the regulations mandate certain disclosures, format and an access period.

If all requirements of Treas. Reg. § 1.6050S-2(a)(2) – (6) are met, an educational institution may integrate consent to electronic delivery of Form 1098-T as part of a global “Consent to Do Business Electronically” agreement. Such agreements may cover primary institutional student business functions such as admissions, registration, Form 1098-T, billings and direct bank deposit. Thus, educational institutions may present the option to consent to receive Form 1098-T electronically as part of such a global agreement, combining consent for electronic delivery of Form 1098-T along with other institutional student business functions such as admissions, registration, billings and direct deposit.

See the Form 1098-T [instructions](#) for more information.

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