



# Introduction to Tax-Exempt Status

## **IRS Exempt Organizations**



## Today's speakers

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Patricia Thomas



## Objectives

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- Differentiate “nonprofit” and “tax-exempt”
- Describe common types of exempt organizations
- Learn requirements for exemption under section 501(c)(3)
- Understand how to apply for exempt status
- Highlight ongoing compliance issues and restricted activities



## “Nonprofit” vs. “Tax-exempt”

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- Nonprofit
  - State law concept
- Tax-Exempt
  - Exempt from *federal* income tax
  - Most are nonprofit organizations
  - Not automatic – most must apply to IRS
  - Must meet requirements to qualify



## Applying for tax-exempt status

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Most organizations seeking exemption under section 501(c)(3) must apply to the IRS.

*Exceptions:*

- Churches
- Organizations whose gross receipts will normally be \$5,000 or less



## Benefits of tax exemption

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- Exemption from federal income taxation
- Exemption from certain other taxes
- Reduced postal rates
- 501(c)(3)s: Tax-deductible contributions



## Exempt organizations: Common types

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### **501(c)(3)**

- Most common type

### **501(c)(4)**

- Social welfare organizations
- Local associations of employees
- Groups that educate the public about particular issues



## Exempt organizations: Common types

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### 501(c)(5)

- Labor, agricultural, and horticultural organizations
- Better conditions for workers, better products, improved efficiency

### 501(c)(6)

- Business leagues
- Chambers of commerce
- Real estate boards



## Exempt Organizations: Common types

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### 501(c)(7)

- Social and recreational clubs for members
- Organized for pleasure, recreation, and similar purposes
- Supported by membership fees/dues

### 501(c)(8)

- Fraternal beneficiary societies/associations
- Fraternal purpose, operated under lodge system
- Provide for payment of life, sick, accident or other insurance benefits to members or their dependents



# Annual filing requirements

Nearly all exempt organizations must file an annual return.

- Form 990, 990-EZ, 990-N...
- Organizations that don't file an annual return are subject to automatic revocation of tax-exempt status

Form <b>990</b> Department of the Treasury Internal Revenue Service	<b>Return of Organization Exempt From Income Tax</b> Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations) ▶ Do not enter Social Security numbers on this form as it may be made public. ▶ Information about Form 990 and its instructions is at <a href="http://www.irs.gov/form990">www.irs.gov/form990</a> .	OMB No. 1545-0047 <b>2013</b> <b>Open to Public Inspection</b>
<b>A</b> For the 2013 calendar year, or tax year beginning _____, 2013, and ending _____, 20	<b>B</b> Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<b>C</b> Name of organization Doing Business As Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or province, country, and ZIP or foreign postal code
	<b>D</b> Employer identification number <b>E</b> Telephone number <b>G</b> Gross receipts \$	<b>H(a)</b> Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No <b>H(b)</b> Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No
	<b>F</b> Name and address of principal officer:	



## Requirements

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501(c)(3) organizations must be:

1. Organized
- AND
2. Operated

exclusively for one or more exempt purposes.



## Organizational test

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### Organization should:

- Be organized as a nonprofit corporation, trust, or unincorporated association

### Organizing document should:

- Limit its purposes to those described in section 501(c)(3)
- Align its activities with exempt purposes
- Dedicate assets only to exempt purposes upon the organization's dissolution



## Operational test

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An organization must engage exclusively in activities that accomplish its exempt purpose.

An exempt organization can't:

- Allow its earnings to inure to the benefit of a private shareholder or individual
- Operate for the benefit of a private interest
- Participate in political campaigns
- Operate for the primary purpose of conducting a trade or business, or
- Perform activities that violate law or fundamental public policy



## Exempt purposes for 501(c)(3)s

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A 501(c)(3) organization must be organized and operated exclusively for one or more of these purposes:

- Charitable
- Educational
- Religious
- Scientific
- Literary
- Fostering national/international amateur sports competition
- Preventing cruelty to children or animals
- Testing for public safety



## Advancing 501(c)(3) purposes

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- Relief of the poor, distressed, or underprivileged
- Advancement of religion
- Advancement of education or science
- Building or maintaining public buildings, monuments or works
- Lessening the burdens of government
- Reducing neighborhood tensions
- Helping eliminate prejudice and discrimination



# Public charity or private foundation

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## Public charity

- Churches, hospitals, qualified medical research organizations
- Active fundraising program
- Receive income from conducting activities

## Private foundation

- Single major source of funding
- May be subject to excise taxes



## Public charities

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- Churches, schools, organizations that provide medical or hospital care
- Organizations that receive a substantial part of their support in the form of contributions
- Organizations that normally receive not more than one-third of their support from gross income and after-tax unrelated business income and more than one-third of their support from gifts, grants, contributions, or membership fees and gross receipts from activities related to their exempt functions
- Organizations that support one or more of the organizations described above



## Prohibited/restricted activities

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A 501(c)(3) organization can't:

- Allow its earnings to inure to the benefit of any private shareholder or individual
- Operate for the benefit of a private interest
- Participate in political campaigns
- Operate for the primary purpose of conducting an unrelated trade/business
- Perform activities that are illegal or violate fundamental public policy



## Private benefit/inurement

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### **Inurement:**

- No part of an exempt organization's earnings may flow to one or more insiders

### **Private Benefit:**

- Excessive benefit to private parties is prohibited
- Contrast unavoidable/insubstantial benefit with substantial benefit



## Political campaign intervention

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Participating or intervening in any political campaign on behalf of or in opposition to any candidate for public office...

- *Absolutely prohibited* for 501(c)(3) organizations
- Different rules for non-(c)(3) exempt organizations



## Unrelated business income

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An activity is an unrelated business if it:

- Is a trade or business activity
- Is regularly carried on
- Is not substantially related to furthering the organization's exempt purpose



## Illegal activities

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An exempt organization can't conduct activities that are illegal or violate fundamental public policy.





## Organization formation

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An organizing document should:

- Limit organization's purposes to those described in section 501(c)(3)
- Align its activities with its exempt purposes
- Dedicate assets only to exempt purposes upon organization's dissolution





## Bylaws and EIN

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### Bylaws:

- An organization's internal operating rules

### Employer Identification Number (EIN):

- Required for exempt organizations
- Apply on [irs.gov](https://irs.gov)



# Form 1023 and Form 1023-EZ

Form <b>1023</b> (Rev. December 2013) Department of the Treasury Internal Revenue Service	<b>Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code</b> <b>(00)</b> ▶ (Use with the June 2006 revision of the Instructions for Form 1023 and the current Notice 1382)	OMB No. 1545-0056 <i>Note: If exempt status is approved, this application will be open for public inspection.</i>
Use the instructions to complete this application and for a definition of all <b>bold</b> items. For additional help, call IRS Exempt Organizations Customer Account Services toll-free at 1-877-829-5500. Visit our website at <a href="http://www.irs.gov">www.irs.gov</a> for forms and		

## Form 1023 or the NEW Form 1023-EZ

Form <b>1023-EZ</b> (Rev. May 2014) Department of the Treasury Internal Revenue Service	<b>Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code</b> ▶ Do not enter social security numbers on this form as it may be made public. ▶ Information about Form 1023-EZ and its separate instructions is at <a href="http://www.irs.gov/form1023">www.irs.gov/form1023</a> .	OMB No. 1545-0056 <i>Note: If exempt status is approved, this application will be open for public inspection.</i>
<input type="checkbox"/> Check this box to attest that you have completed the Form 1023-EZ Eligibility Worksheet in the current instructions and are eligible to apply for exemption using Form 1023-EZ.		

Use Form 1023-EZ Eligibility Worksheet to see if your organization is eligible to use this new, simplified form



# i1023

The screenshot shows the IRS Stay Exempt website. The header includes the IRS logo, the text 'IRS Stay Exempt Tax Basics for Exempt Organizations', a search bar, and navigation links: Home, Starting Out, Existing Organizations, In-depth Topics, and Resource Library. A breadcrumb trail reads 'HOME >> STARTING OUT >> INTERACTIVE FORM 1023 APPLICATION'. A blue banner on the left contains the text 'Applying for Tax-Exempt Status' and 'This IRS interactive guide will help you correctly complete and submit IRS Form 1023.' with a 'Start' button. Below this is a paragraph: 'Use these "prerequisite questions" to ensure you have everything needed to apply for tax exemption using Form 1023, Application for Recognition of Exemption, and its associated schedules.' On the right, a preview of Form 1023 is shown, titled 'Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code'. The form includes fields for 'Full name of organization', 'Mailing address', 'Primary contact', and 'Are you represented by an authorized representative?'. A 'Start' button is overlaid on the form preview.

- Prerequisite questions, auto-calculating fields, supplemental pages, help buttons, and links
- Dramatically reduces errors/incomplete forms

INTRODUCTION TO TAX-EXEMPT STATUS | EXEMPT ORGANIZATIONS



## Remember the user fee

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**DON'T FORGET TO  
PAY THE CORRECT  
USER FEE!**



# Form 1024

- Used by organizations seeking exemption under section OTHER than 501(c)(3)

Form <b>1024</b> (Rev. September 1998) Department of the Treasury Internal Revenue Service	<b>Application for Recognition of Exemption Under Section 501(a)</b>	OMB No. 1545-0057  If exempt status is approved, this application will be open for public inspection.
<p>Read the instructions for each Part carefully. <b>A User Fee must be attached to this application.</b> If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to the organization. <b>Complete the Procedural Checklist on page 6 of the instructions.</b></p>		
<b>Part I. Identification of Applicant</b> (Must be completed by all applicants; also complete appropriate schedule.) Submit only the schedule that applies to your organization. Do not submit blank schedules.		
Check the appropriate box below to indicate the section under which the organization is applying:		
a <input type="checkbox"/> Section 501(c)(2)—Title holding corporations (Schedule A, page 7)		
b <input type="checkbox"/> Section 501(c)(4)—Civic leagues, social welfare organizations (including certain war veterans' organizations), or local associations of		



## Self-declaring

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- Many organizations eligible to file Form 1024 may “self-declare” instead of filing an application
  - *Declare themselves exempt under a subsection of 501(c), and then operate pursuant to the rules of that section*
- Organizations that self-declare must still meet annual filing requirements



## Application processing

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- IRS may ask additional questions
- Our goal is to process applications within 270 days
- Processing time is quicker for 1023-EZ applications



## Filing annual returns

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***Remember:***  
*Organizations must file required annual returns even before a determination letter is issued.*



# UBI: Form 990-T

- Must file Form 990-T if year's UBI is \$1,000 or more
- See Publication 598

Form <b>990-T</b>  Department of the Treasury Internal Revenue Service	<b>Exempt Organization Business Income Tax Return</b> <b>(and proxy tax under section 6033(e))</b>  For calendar year 2013 or other tax year beginning _____, 2013, and ending _____, 20____. ▶ See separate instructions.  ▶ Information about Form 990-T and its instructions is available at <a href="http://www.irs.gov/form990t">www.irs.gov/form990t</a> . ▶ Do not enter SSN numbers on this form as it may be made public if your organization is a 501(c)(3).	OMB No. 1545-0687  <div style="font-size: 2em; font-weight: bold;">2013</div> <b>Open to Public Inspection for 501(c)(3) Organizations Only</b>
<b>A</b> <input type="checkbox"/> Check box if address changed  <b>B</b> Exempt under section <input type="checkbox"/> 501(c) ( ) ( ) <input type="checkbox"/> 408(e) <input type="checkbox"/> 220(e) <input type="checkbox"/> 408A <input type="checkbox"/> 530(a) <input type="checkbox"/> 529(a)	<b>Print or Type</b>	Name of organization ( <input type="checkbox"/> Check box if name changed and see instructions.)  Number, street, and room or suite no. If a P.O. box, see instructions.  City or town, state or province, country, and ZIP or foreign postal code
<b>C</b> Book value of all assets at end of year	<b>F</b> Group exemption number (See instructions.) ▶	<b>D</b> Employer identification number (Employees' trust, see instructions.)  <b>E</b> Unrelated business activity codes (See instructions.)
<b>G</b> Check organization type ▶ <input type="checkbox"/> 501(c) corporation <input type="checkbox"/> 501(c) trust <input type="checkbox"/> 401(a) trust <input type="checkbox"/> Other trust		



## Jeopardizing exemption

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- An exempt organization must be operated exclusively for exempt purposes
  - ✓ If more than an insubstantial part of its activities do not further exempt purposes, its exemption is in danger
- Comply with applicable employment taxes
- Comply with inspection and disclosure requirements
- Keep good records



## What we covered

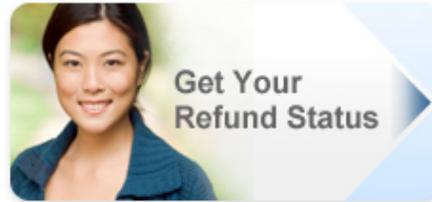
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- Basics of 501(c)(3)
- Other types of exempt organizations
- How to apply
- Activities to avoid
- Annual filing requirement



Search

- > Individuals
- > Businesses
- > **Charities & Non-Profits**
- > Government Entities
- > Tax Professionals
- > Retirement Plans
- > Tax Exempt Bonds



### Forms and Pubs

- > 941
- > 4506-T
- > 1040
- > SS-4
- > 2848
- > More ...
- > W-2
- > W-8BEN
- > Pub 15
- > W-4
- > W-9

### Hot Topics

- > Free File: File your return for free
- > Pay Your Tax Bill
- > Earned Income Tax Credit
- > Affordable Care Act Tax Provisions
- > More ...

### Tools

- > Request an Electronic Filing PIN
- > Order a Return or Account Transcript
- > Use the Interactive Tax Assistant
- > Apply for an EIN Online
- > First Time Homebuyer Credit Look-up
- > More ...

### Filing & Payment



### News

- Hurricane Sandy Relief Extended for Some NJ and NY Victims
- Statement on Court Ruling Related to Return Preparers
- Penalty Relief for Farmers and Fishermen
- > More ...

- 2013 Filing Season
- 2013 Free File, e-File
- 2013 EITC
- Offshore Disclosure
- Identity Theft



To reach our **Charities and Nonprofits** page, go to **IRS.gov** and click **"Information for..."** then select **Charities & Nonprofits**.

### Social Media

software or online fillable

file right the first time.

2013

and how to check on

Welcome to Free File!

# Charities & Non-Profits



Charitable Organizations

Churches & Religious Organizations

Political Organizations

Private Foundations

Other Non-Profits

Contributors

## Charities & Non-Profits Topics

- A-Z Index
- Search for Charities
- Calendar of Events
- Charity and Nonprofit Audits
- Free e-Newsletter
- Online Training
- Life Cycle

## Tax Information for Charities & Other Non-Profits

### How to Apply to Be Tax-Exempt

Information about how to apply for IRS recognition of tax-exempt status.

### Annual Reporting & Filing

990-series forms, requirements, and filing tips

### Revoked? Reinstated? Learn More

Information about the automatic revocation process and how to be reinstated.

### EO Select Check

Search for a tax-exempt's status.

### Education, Workshops, Seminars

IRS programs and materials for non-profit organizations.

### How to Stay Exempt

Resources for tax-exempt nonprofit organizations

### StayExempt.IRS.gov

Tax basics for exempt organizations

### About Us

General information and how to contact us.



## News

- › New draft Form 1023-EZ
- › Charting Path Forward - April 24 Update
- › Streamlined Option for Some (c)(4)s



## How to Stay Exempt

Sign up for a free phone forum

Reserve Your Spot

*Find the latest developments affecting EOs by selecting EO Current Topics & News.*



- Charitable Organizations
- Churches & Religious Organizations
- Political Organizations
- Private Foundations
- Other Non-Profits
- Contributors

Charities & Non-Profits Topics

- A-Z Index**
- Search for Charities
- Calendar of Events
- Charity and Nonprofit Audits
- Free e-Newsletter
- Online Training
- Life Cycle

# Charities and Nonprofits A-Z Site Index



<a href="#">( A-E )</a>	<a href="#">( F-J )</a>	<a href="#">( K-O )</a>	<a href="#">( P-T )</a>	<a href="#">( U-Z )</a>
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## A

- [Abusive Tax Avoidance Transactions](#)
- [Academic Institutions Initiative](#)
- [Accountable Care Organizations \(ACOs\) and the Medicare Shared Savings Program \(MSSP\)](#)
- [Action Organization](#)
- [Advance Approval of Grantmaking Procedures](#)
- [Advance Ruling Process Elimination](#)
- [Advisory Committee on Tax Exempt and Government Entities \(ACT\) Reports](#)
- [Affordable Care Act of 2010](#)
  - [Affordable Care Act Tax Provisions](#)
  - [News Releases, Multimedia, Published Guidance](#)
- [Agricultural and Horticultural Organizations - 501\(c\)\(5\)](#)
- [Annual Electronic Filing Requirement of Small Exempt Organizations \(ePostcard\) see e-Postcard](#)
- [Annual Information Return see filing requirements](#)
- [Annual Reports and Work Plans](#)
- [Appeals Office Consideration](#)
  - [Publication 892, Exempt Organizations Appeal Procedures for Unagreed Issues](#)
  - [Fast Track Settlement of Examinations Issues](#)
- [Appeals to Courts](#)
- [Application Process](#)
  - [Applying for Tax-Exemption: An Overview StayExempt.org minicourse](#)
  - [Expediting Application Processing](#)
  - [Form 1023, Application for Recognition of Exemption Under Section 501\(c\)\(3\) of the Internal Revenue Code](#)
  - [Form 1023 Instructions](#)
  - [Form 1024, Application for Exemption Under Section 501\(a\)](#)
  - [Form 1024 Instructions](#)

*The A-Z Site Index is one of our most helpful pages.*



Charitable Organizations

## Exempt Organizations Select Check

Churches & Religious Organizations

[Exempt Organizations Select Check Home](#)

### Exempt Organizations Select Check

Click on one of the buttons below to search for:

1. Organizations eligible to receive tax-deductible contributions (Pub. 78 data),
2. Organizations whose federal tax exemption was automatically revoked for not filing a Form 990-series return or notice for three consecutive years, or
3. Form 990-N (e-Postcard) filers and filings.

Limit search to organizations that (select only one):

- [Are eligible to receive tax-deductible contributions](#)
 [Were automatically revoked](#)
 [Have filed Form 990-N \(e-Postcard\)](#)

**Note:** To search for other information on the IRS website, please use the site search located on the top right of your screen.

...organization, users may download a complete list of each of the three types of organizations through *Exempt Organizations Select Check*.

### Charities & Non-Profits Topics

- Life Cycle
- Search for Charities
- A-Z Site Index



*Check out EO's online exempt org search tool.  
It's updated monthly!*

Charitable Organizations

Churches & Religious Organizations

Political Organizations

Private Foundations

Other Non-Profits

Contributors

## Calendar of Events



### Upcoming Events

IRS Exempt Organizations offers specialized education programs to help exempt organizations understand their tax responsibilities. The list below provides information about events on exempt organizations topics, and links to detailed information, including registration websites, for scheduled programs.

[Webinars](#) - EO tax law programs from your computer

**Register now** for free webinar on churches and religious organizations - July 26, 2012.

[Phone forums](#) - Free phone forums featuring IRS employees discussing exempt organizations topics.

**Register now** for phone forum on exempt organizations and gaming - July 18, 2012.

[Workshops](#) - Small and Medium-Sized Exempt Organizations - face-to-face programs on exempt organizations tax issues

[Conferences](#) - presented or sponsored by IRS Exempt Organizations

[Nationwide Tax Forums](#) - the latest word from IRS leadership and other experts in the exempt organizations tax law field

### Additional information

- [Materials from past events](#)
- On-line educational programs available anytime at [www.stayexempt.irs.gov](http://www.stayexempt.irs.gov)

Page Last Reviewed or Updated: 2012-08-02

*Educational activities specially designed for the EO community.*





# EO-Update: Free e-Newsletter

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Filing | Payments | Refunds | Credits & Deductions | News & Events | Forms & Pubs | Help & Resources | for Tax Pros

Charitable Organizations  
Churches & Religious Organizations  
Political Organizations  
Private Foundations  
Other Non-Profits  
Contributors

## Current Edition of Exempt Organizations Update

*EO Update* is a periodic newsletter with information for tax-exempt organizations and tax practitioners - attorneys, accountants, and others - who represent them, from Exempt Organizations (Tax-Exempt and Government Entities) at the IRS.

Issue	Highlights	Release Date
<a href="#">2014-9</a>	<ol style="list-style-type: none"><li>1. Register for the IRC 501(c)(6) Organizations phone forum</li><li>2. IRS to Exempt Organizations as Filing Deadline Nears: Remember to File and Don't Include SSNs on Form 990</li><li>3. Treasury and the IRS invite public comment on recommendations for 2014-2015 Priority Guidance Plan</li><li>4. EO Business Master File Web page link updated</li><li>5. Disaster Relief Resources for Charities and Contributors</li><li>6. Watch new small business health care tax credit YouTube video</li></ol>	5/9/2014

Browse the newsletter [archive](#) or [subscribe](#) to future editions.

Page Last Reviewed or Updated: 12-May-2014

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Commissioner | Careers | Tax Fraud & Abuse | Español

**Register for the  
EO UPDATE!**

*It's **FREE** and it  
keeps you up to  
date with what's  
happening in EO.*



# StayExempt.irs.gov

IRS Stay Exempt  
Tax Basics for Exempt Organizations

Home | New Organizations | Existing Organizations | In-depth Topics | Resource Library

Welcome to Stay Exempt  
an IRS site created especially  
for 501(c)(3) organizations

How to apply for tax-exempt status | Maintaining your tax-exempt status | Expand your exempt organization knowledge

New Organizations | Existing Organizations | In-depth Topics

RESOURCE LIBRARY | SITE MAP | PRIVACY | ACCESSIBILITY | ABOUT US | FAQS | CONTACT US | WEBMASTER | GET HELP

StayExempt is a federal government website managed by the US Internal Revenue Service.

*This is one of the best ways to learn what's important to exempt organizations*



# Questions?

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[tege.eo.ceo@irs.gov](mailto:tege.eo.ceo@irs.gov)