

# Publication 557

## Tax-Exempt Status for Your Organization

(Rev. January 2025)

For use in preparing

**2025** Returns

Volume 2 of 8



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Publication 557 (Rev 1 2025) Catalog Number 39343U  
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When notice is given under any of these three conditions, the IRS will no longer recognize the exempt status of the affected subordinates until they file separate applications on their own behalf or the central organization files complete supporting information for their inclusion in the group exemption at the time of its annual submission. However, when the notice is given by the IRS and the withdrawal of recognition is based on the failure of the organization to comply with the requirements for recognition of tax-exempt status under the particular subsection of section 501(c), the revocation will ordinarily take effect as of the date of that failure. The notice, however, will be given only after the appeal procedures described earlier in this chapter are completed.

In addition, the IRS will cease to recognize the subordinates under a group exemption as tax-exempt if the central organization is

automatically revoked for failure to file required returns or notices for 3 consecutive years. See *Automatic Revocation*, later. Subordinates under a group exemption are also subject to automatic revocation for failure to file required returns (or appear on a group return if the subordinate does not file its own) or notices for 3 consecutive years. A subordinate organization that is automatically revoked must apply to the IRS for reinstatement of its exempt status. Thereafter, it may retain independent exempt status or it may seek to resume its status as a subordinate of the central organization. See [Group Exemption Resources](#) .

## **2.**

# **Filing Requirements and Required Disclosures**

## **Introduction**

Most exempt organizations (including private foundations) must file various returns and reports at some time during (or following the close of) their accounting period.

## **Topics**

This chapter discusses:

- Annual information returns
- Unrelated business income tax return
- Employment tax returns
- Political organization income tax return
- Reporting requirements for a political organization
- Donee information return

- Information provided to donors
- Report of cash received
- Public inspection of exemption applications, annual returns, and political organizations reporting forms
- Required disclosures
- Miscellaneous rules

## Useful Items

You may want to see:     □

## Publication

- **15** Circular E, Employer's Tax Guide
- **15-A** Employer's Supplemental Tax Guide
- **15-B** Employer's Tax Guide to Fringe Benefits
- **598** Tax on Unrelated Business Income of Exempt Organizations

## **Form (and Instructions)**

- ☐ **941** Employer's Quarterly Federal Tax Return
- ☐ **990** Return of Organization Exempt From Income Tax
- ☐ **990-EZ** Short Form Return of Organization Exempt From Income Tax
- ☐ **Schedule A (Form 990)** Public Charity Status and Public Support
- ☐ **Schedule B (Form 990)** Schedule of Contributors
- ☐ **Schedule C (Form 990)** Political Campaign and Lobbying Activities
- ☐ **Schedule D (Form 990)** Supplemental Financial Statements
- ☐ **Schedule E (Form 990)** Schools
- ☐ **Schedule F (Form 990)** Statement of Activities Outside the United States
- ☐ **Schedule G (Form 990)** Supplemental Information Regarding Fundraising or Gaming Activities
- ☐ **Schedule H (Form 990)** Hospitals

- ☐ **Schedule I (Form 990)** Grants and Other Assistance to Organizations, Governments, and Individuals in the United States
- ☐ **Schedule J (Form 990)** Schedule J (Form 990) Compensation Information
- ☐ **Schedule K (Form 990)** Supplemental Information on Tax-Exempt Bonds
- ☐ **Schedule L (Form 990)** Transactions With Interested Persons
- ☐ **Schedule M (Form 990)** Schedule M (Form 990) Noncash Contributions
- ☐ **Schedule N (Form 990)** Liquidation, Termination, Dissolution, or Significant Disposition of Assets
- ☐ **Schedule O (Form 990)** Supplemental Information to Form 990
- ☐ **940** Employer's Annual Federal Unemployment (FUTA) Tax Return
- ☐ **Schedule R (Form 990)** Related Organizations and Unrelated Partnerships



- ☐ **990-PF** Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation
- ☐ **990-N** Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ
- ☐ **990-T** Exempt Organization Business Income Tax Return
- ☐ **Schedule A (Form 990-T)** Unrelated Business Taxable Income from an Unrelated Trade or Business
- ☐ **990-W** Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations
- ☐ **1120-POL** U.S. Income Tax Return for Certain Political Organizations
- ☐ **4720** Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code
- ☐ **5768** Election/Revocation of Election by an Eligible Section 501(c)(3)

## Organization To Make Expenditures To Influence Legislation

- **6069** Return of Certain Excise Taxes on Mine Operators, Black Lung Trusts, and Other Persons Under Sections 4951, 4952, and 4953
- **7004** Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns
- **8274** Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption from Employer Social Security and Medicare Taxes
- **8282** Donee Information Return
- **8300** Report of Cash Payments Over \$10,000 Received in a Trade or Business
- **8453-X** Political Organization Declaration for Electronic Filing of Notice of Section 527 Status

- **8822-B** Change of Address or Responsible Party—Business
- **8868** Application for Automatic Extension of Time to File an Exempt Organization Return
- **8870** Information Return for Transfers Associated with Certain Personal Benefits Contracts
- **8871** Political Organization Notice of Section 527 Status
- **8872** Political Organization Report of Contributions and Expenditures
- **8886-T** Disclosure by Tax-Exempt Entity Regarding Prohibited Tax Shelter Transaction
- **8899** Notice of Income from Donated Intellectual Property
- **8976** Notice of Intent to Operate Under Section 501(c)(4)

See chapter 6 for information about getting these publications and forms.

# Annual Information Returns

Every organization exempt from federal income tax under section 501(a) must file an [Annual Exempt Organization Return](#) **except:**

1. A church, an interchurch organization of local units of a church, a convention or association of churches;
2. An integrated auxiliary of a church;
3. A church-affiliated organization that is exclusively engaged in managing funds or maintaining retirement programs;
4. A school below college level affiliated with a church or operated by a religious order;
5. Church-affiliated mission societies if more than half of their activities are conducted in, or are directed at persons in, foreign countries;
6. An exclusively religious activity of any religious order;

7. A state institution, the income of which is excluded from gross income under section 115;
8. A corporation described in section 501(c) (1) that is organized under an Act of Congress, an instrumentality of the United States, and is exempt from federal income taxes;
9. A stock bonus, pension, or profit-sharing trust that qualifies under section 401 (required to file Form 5500, *Annual Return/ Report of Employee Benefit Plan*);
10. A religious or apostolic organization described in section 501(d) (required to file Form 1065, *U.S. Return of Partnership In-come*);
11. A governmental unit or an affiliate of a governmental unit that meets the requirements of [Rev. Proc. 95-48,](#)

[1995-2 C.B. 418, IRS.gov/pub/irs-tege/rp1995-48.pdf](https://www.irs.gov/pub/irs-tege/rp1995-48.pdf);

12. A private foundation described in section 501(c)(3) and exempt under section 501(a) (required to file Form 990-PF, *Return of Private Foundation*);
13. A political organization that is a state or local committee of a political party, a political committee of a state or local candidate, a caucus or association of state or local officials, or required to report under the Federal Election Campaign Act of 1971 as a political committee;
14. An exempt organization (other than a private foundation or a supporting organization described in *Supporting Organization Annual Information Return*, later) that normally has annual gross receipts of \$50,000 or less (required to file Form 990-N,

Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ); or

15. A foreign organization, or an organization located in a U.S. territory, that normally has annual gross receipts from sources within the United States of \$50,000 or less.

## **Supporting Organization Annual Information Return**

Each section 509(a)(3) supporting organization is required to file Form 990 or 990-EZ with the IRS regardless of the organization's gross receipts, unless it qualifies as one of the following:

1. An integrated auxiliary of a church;
2. The exclusively religious activities of a religious order; or

3. An organization, the gross receipts of which are normally not more than \$5,000, that supports a section 509(a)(3) religious order.

If the organization is described in item (3) above, then it must submit Form 990-N (e-Postcard) unless it voluntarily files Form 990 or 990-EZ.

On its annual information return, in Part I, Schedule A (Form 990) a supporting organization must:

- List the organizations to which it provides support;
- Indicate whether it is a Type I, Type II, or Type III supporting organization; and
- Certify that the organization isn't controlled directly or indirectly by disqualified persons (other than by foundation managers and other than one or more publicly supported organizations).



## **Annual Electronic Notice Filing Requirement for Small Tax-Exempt Organizations**

Small tax-exempt organizations with annual gross receipts normally \$50,000 or less that are not otherwise required to file an annual information return and are not otherwise exempted entirely from a filing requirement must submit Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ, with the IRS each year, if they choose not to file a Form 990 or 990-EZ. Form 990-N requires the following information:

- The organization's legal name, and mailing address;
- Any name under which it operates and does business;
- Its Internet website address (if any);
- Its taxpayer identification number;

- The name and address of a principal officer;
- Organization's annual tax period;
- Verification that the organization's annual gross receipts are normally \$50,000 or less; and
- Notification if the organization has terminated.

Form 990-N is due by the 15th day of the fifth month after the close of the tax year. For tax years beginning after December 31, 2006, any organization that fails to meet its annual reporting requirement for 3 consecutive years will automatically lose its tax-exempt status. To regain its exempt status an organization will have to reapply for recognition as a tax-exempt organization.

***Exceptions.*** This filing requirement doesn't apply to:

- Churches, their integrated auxiliaries, and conventions or associations of churches;
- Organizations that are included in a group return;
- Private foundations required to file Form 990-PF; and
- Section 509(a)(3) supporting organizations required to file Form 990 or Form 990-EZ.

## **Forms 990 and 990-EZ**

Exempt organizations, other than private foundations, must file their annual information returns on Form 990 or 990-EZ, unless excepted from filing or allowed to submit Form 990-N, described earlier.

Generally, political organizations with gross receipts of \$25,000 (\$100,000 for a qualified state or local political organization (QSLPO))

or more for the tax year are required to file Form 990 or 990-EZ unless specifically excepted from filing the annual return. The following political organizations aren't required to file Form 990 or Form 990-EZ.

- A state or local committee of a political party.
- A political committee of a state or local candidate.
- A caucus or association of state or local officials.
- A political organization that is required to report as a political committee under the Federal Election Campaign Act.
- A 501(c) organization that has expenditures for influencing or attempting to influence the selection, nomination, election, or appointment of any individual for a federal, state, or local public office.

**Form 990-EZ.** This is a shortened version of Form 990. Form 990-EZ is designed for use by small exempt organizations and nonexempt charitable trusts.

An organization can file either Form 990 or 990-EZ if it satisfies both of the following:

1. Its gross receipts during the year are less than \$200,000.
2. Its total assets (line 25, column (B) of Form 990-EZ) at the end of the year are less than \$500,000.

If your organization doesn't satisfy both of these conditions, it can't file Form 990-EZ. Instead, the organization must file Form 990.

***Group return.*** A group return on Form 990 may be filed by a central, parent, or like organization for two or more local organizations, none of which is a private foundation. This return is in addition to the central organization's separate annual return if it must file a return.

The central organization can't be included in the group return. See the Instructions for Form 990 for the conditions under which this procedure may be used.



*In any year that an organization is properly included as a subordinate organization on a group return, it shouldn't file its own Form 990.*

**Schedule A (Form 990).** Organizations, other than private foundations, that are described in section 501(c)(3) and that are otherwise required to file Form 990 or 990-EZ must also complete Schedule A of that form.

**Schedule B (Form 990).** Organizations that file Form 990, 990-EZ or 990-PF use this schedule to provide required information regarding certain contributors.

**Schedule O (Form 990).** Organizations that file Form 990 or 990-EZ, must use this schedule to provide required additional information or if additional space is needed.

Other schedules may be required to be filed with Form 990 or 990-EZ. See the Instructions for Form 990 or the Instructions for Form 990-EZ for more information.

**Report significant new or changed program services and changes to organizational documents.** An organization should report new significant program services or significant changes in how it conducts program services, and significant changes to its organizational documents, on its Form 990 rather than in a letter to EO Determinations. EO Determinations no longer issues letters confirming the tax-exempt status of organizations that report new services or significant changes, or changes to organizational documents. See *Miscellaneous Rules, Organization Changes and Exempt Status*, later.

## **Form 990-PF**

All private foundations exempt under section 501(c)(3) must file Form 990-PF. These organizations are discussed in chapter 3.

## **Electronic Filing**

For tax years beginning on or before July 1, 2019, your organization may be required to file Form 990, Form 990-EZ, or Form 990-PF, and related forms, schedules, and attachments electronically. For tax years beginning after July 1, 2019, under the Taxpayer First Act, organizations are required to file certain returns electronically, including Form 990, 990-EZ, 990-PF, 8872, and 990-T. The e-filing requirement is generally effective for tax years beginning after July 1, 2019. The Taxpayer First Act allows transitional relief for certain small organizations or other organizations for which the IRS determines that application of the e-filing requirement would constitute an undue hardship in the absence of additional transitional time.



If an organization is required to file a return electronically but doesn't, it isn't considered to have filed its return. See Regulations section 301.6033-4 for more information.

**Form 990.** For tax years beginning on or before July 1, 2019, an organization is required to file Form 990 electronically if it files at least 250 returns during the calendar year and has total assets of \$10 million or more at the end of the tax year. For tax years beginning after July 1, 2019, an organization is required to file Form 990 electronically unless exceptions described in the form instructions apply. As of the 2020 Form 990, the instructions no longer describe any exceptions to the e-filing requirement.

**Form 990-EZ.** For small exempt organizations, the legislation specifically allowed a postponement ("transitional relief"). For tax years ending before July 31, 2021, the IRS will accept either paper or electronic filing of Form 990-EZ,

Short Form Return of Organization Exempt from Income Tax. For tax years ending July 31, 2021, and later, Forms 990-EZ must be filed electronically. Generally, Form 990-EZ is for organizations with annual gross receipts less than \$200,000 and total assets at tax year-end less than \$500,000.

**Form 990-PF.** For tax years beginning on or before July 1, 2019, an organization is required to file Form 990-PF electronically if it files at least 250 returns during the calendar year. For tax years beginning after July 1, 2019, an organization is required to file Form 990-PF electronically unless exceptions described in the form instructions apply. As of the 2020 Form 990-PF, the instructions no longer describe any exceptions to the e-filing requirement.

**Form 990-N.** An organization that is eligible and elects to submit Form 990-N must submit it electronically.

**Form 990-T.** The IRS continued to accept paper forms Form 990-T into 2021 pending its conversion into electronic format. In March 2020, the IRS announced the availability of the electronic filing of Form 990-T. Any 2020, and any future year Form 990-T with a due date on or after April 15, 2021, must be filed electronically and not on paper.

**Form 8872.** Form 8872 must be filed electronically if reporting on periods after 2019.

## **Due Date**

Forms 990, 990-EZ, or 990-PF must be filed by the 15th day of the fifth month after the end of your organization's accounting period. Thus, for a calendar year taxpayer, Forms 990, 990-EZ, or 990-PF are due May 15 of the following year. If any due date falls on a Saturday, Sunday, or legal holiday, the return will be due the next business day.

**Extension of time to file.** Use Form 8868 to request an automatic six month extension of time to file Forms 990, 990-EZ, or 990-PF.

When filing Form 8868 for an automatic extension, neither a signature, nor an explanation is required.

**Application for exemption pending.** An organization that claims to be exempt under section 501(a) but has not established its exempt status by the due date for filing an information return must complete and file Form 990,

990-EZ, 990-N, or 990-PF (if it considers itself a private foundation), unless the organization is exempt from Form 990-series filing requirements. If the organization's application is pending with the IRS, it must so indicate on Forms 990, 990-EZ, or 990-PF (whichever applies) by checking the *application pending* block at the top of page 1 of the return.

For more information on the filing requirements, see the Instructions for Forms 990, 990-EZ, and 990-PF.

**State reporting requirements.** Copies of Forms 990, 990-EZ, or 990-PF may be used to satisfy state reporting requirements. See the instructions for those forms.

**Form 8870.** Organizations that filed a Form 990, 990-EZ, or 990-PF, and paid premiums or received transfers on certain life insurance, annuity, and endowment contracts (personal benefit contracts), must file Form 8870. For more information, see Form 8870 and the instructions for that form.

**Form 8822-B.** If you moved during the year, fill out Form 8822-B, Change of Address or Responsible Party-Business. Also, if your “Responsible Party” changed this year, you must also fill out Form 8822-B.

The “Responsible Party” is the tax-exempt organization’s “Principal Officer,” as defined in the Form 990 instructions, in the *Glossary* section.

## **Automatic Revocation**

If the organization fails to file a Form 990, 990-EZ, or 990-PF, or fails to submit a Form 990-N, as required, for 3 consecutive years, it will automatically lose its tax-exempt status by operation of law effective as of the due date for the third missed return or notice. The list of organizations whose tax-exempt status has been automatically revoked is available on IRS.gov. This list (Auto-Revocation List) may be viewed and searched on [Tax-Exempt Organization Search](#). The Auto-Revocation List includes each organization's name, employer identification number (EIN), and last known address. It also includes the effective date of the automatic revocation and the date it was posted to the list.

For auto-revoked organizations that applied for and received reinstatement, the list gives the date of reinstatement. The IRS updates the list monthly to include additional organizations that lose their tax-exempt status.

## **Tax Effect of Loss of Tax-Exempt Status**

If your organization's tax-exempt status is automatically revoked, you may be required to file one of the following federal income tax returns and pay any applicable income taxes:

- Form 1120, *U.S. Corporation Income Tax Return*, due by the 15th day of the 3rd month after the end of your organization's tax year, or
- Form 1041, *U.S. Income Tax Return for Estates and Trusts*, due by the 15th day of the 4th month after the end of your organization's tax year.

In addition, a section 501(c)(3) organization that loses its tax-exempt status can't receive tax-deductible contributions and won't be identified in the IRS Business Master File extract as eligible to receive tax-deductible contributions, or be included in Tax-Exempt Organization Search (Pub. 78 database).

An organization whose exemption was automatically revoked must apply for tax exemption in order to regain its tax exemption (even if it wasn't originally required to apply). In some situations, an organization may be able to obtain exemption retroactive to its date of revocation. Similarly, if the central organization with a Group Exemption Number is automatically revoked, all its covered subsidiaries may need to apply for exemption as independent organizations.

For more information about automatic revocation, go to [IRS.gov](https://www.irs.gov) and select *Charities & Non-Profits* and then select *Reinstated?*



Learn more with *Reinstate Tax-Exempt Status*.

## **Penalties**

**Penalties for failure to file.** Generally, an exempt organization that fails to file a required return must pay a penalty of \$20 a day for each day the failure continues. The same penalty will apply if the organization doesn't give all the information required on the return or doesn't give the correct information.

***Maximum penalty.*** The maximum penalty for any one return is the smaller of \$10,000 or 5% of the organization's gross receipts for the year.

***Organization with gross receipts over \$1 million.*** For an organization that has gross receipts of over \$1 million for the year, the penalty is \$100 a day up to a maximum of \$50,000.

***Managers.*** If the organization is subject to this penalty, the IRS may specify a date by which the return or correct information must be supplied by the organization. Failure to comply with this demand will result in a penalty imposed upon the manager of the organization, or upon any other person responsible for filing a correct return. The penalty is \$10 a day for each day that a return isn't filed after the period given for filing. The maximum penalty imposed on all persons with respect to any one return is \$5,000.

***Penalties indexed for inflation.***

These penalty provisions are indexed for inflation for returns required to be filed after December 31, 2014.

***Exception for reasonable cause.*** No penalty will be imposed if reasonable cause for failure to file timely can be shown.

# **Unrelated Business Income Tax Return**

Even though your organization is recognized as tax exempt, it still may be liable for tax on its unrelated business income. Unrelated business income is income from a trade or business, regularly carried on, that isn't substantially related to the charitable, educational, or other purpose that is the basis for the organization's exemption.

If your organization has gross income of \$1,000 or more from a regularly conducted unrelated trade or business, you must file Form 990-T in addition to your required annual information return or notice. The form instructions and [IRS.gov](https://www.irs.gov) should be consulted for electronic filing guidance. For tax years beginning after December 31, 2017, an organization with more than one unrelated trade or business must compute its UBTI (unrelated business taxable income),

including for purposes of determining any net operating loss deduction, separately with respect to each such trade or business.

Organizations complete a separate Schedule A (Form 990-T) to calculate UBTI for each of its trades or businesses.

***Estimated tax.*** An organization that expects to owe \$500 or more in tax (including tax on unrelated business income) is required to make quarterly estimated tax payments. Use Form 990-W to figure your organization's estimated tax payments. Failure to make appropriate quarterly estimated tax payments may result in an underpayment penalty.

See Publication 598, Tax on Unrelated Business Income of Exempt Organizations for more information on UBTI.

## **Employment Tax Returns**

Every employer, including an organization exempt from federal income tax that pays wages to employees is responsible for

withholding, depositing, paying, and reporting federal income tax, social security and Medicare (FICA) taxes, and federal unemployment tax (FUTA), unless that employer is specifically excepted by law from those requirements, or if the taxes clearly don't apply.

For more information, obtain a copy of Publication 15, which summarizes the responsibilities of an employer, Publication 15-A, Publication 15-B, and Form 941.

**Small Business Health Care Tax Credit.** If your small tax-exempt organization provides health care coverage for your workers you may qualify for the small business health care tax credit. Go to [Affordable Care Act Tax Provisions](#) for more details. See also [Small Business Health Care Tax Credit](#).

**Trust fund recovery penalty.** If any person required to collect, truthfully account for, and pay over any of these taxes willfully fails to satisfy any of these requirements or willfully

tries in any way to evade or defeat any of them, that person will be subject to a penalty. The penalty is equal to the tax evaded, not collected, or not accounted for and paid over. The term *person* includes:

- An officer or employee of a corporation, or
- A member or employee of a partnership.

***Exception.*** The penalty isn't imposed on any unpaid volunteer director or member of a board of trustees of an exempt organization if the unpaid volunteer serves solely in an honorary capacity, doesn't participate in the day-to-day or financial operations of the organization, and doesn't have actual knowledge of the failure on which the penalty is imposed.

This exception doesn't apply if it results in no one being liable for the penalty.

**Certification Program for Professional Employer Organizations (CPEOs).** The Tax Increase Prevention Act of 2014, enacted Dec. 19, 2014, requires the IRS to establish a voluntary certification program for professional employer organizations (PEOs). PEOs handle various payroll administration and tax reporting responsibilities for their business clients and are typically paid a fee based on payroll costs. For further information, go to: [IRS.gov/for-tax-pros/basic-tools/certified-professional-employerorganization](https://www.irs.gov/for-tax-pros/basic-tools/certified-professional-employerorganization).

**FICA and FUTA tax exceptions.** Payments for services performed by a minister of a church in the exercise of the ministry, or a member of a religious order performing duties required by the order, are generally not subject to FICA or FUTA taxes.

**FUTA tax exception.** Payments for services performed by an employee of a religious, charitable, educational,

or other organization described in section 501(c)(3) that are generally subject to FICA taxes if the payments are \$100 or more for the year, aren't subject to FUTA taxes.

However, a section 501(c)(3) organization is liable for FUTA tax when paying wages for employees on behalf of others, examples include but are not limited to related non-section 501(c)(3) organizations, fiscal agents such as IRC 3504, common paymaster, etc.

***FICA tax exemption election.*** Churches and qualified church-controlled organizations can elect exemption from employer FICA taxes by filing Form 8274.

To elect the exemption, Form 8274 must be filed before the first date on which a quarterly employment tax return would otherwise be due from the electing organization. The organization can make the election only if it is opposed for religious reasons to the payment of FICA taxes.



The election applies to payments for services of current and future employees other than services performed in an unrelated trade or business.

***Revoking the election.*** The election can be revoked by the IRS if the organization fails to file Form W-2, Wage and Tax Statement, for 2 years and fails to furnish certain information upon request by the IRS. Such revocation will apply retroactively to the beginning of the 2-year period.

***Definitions.*** For purposes of this election, the term *church* means a church, a convention or association of churches, or an elementary or secondary school that is controlled, operated, or principally supported by a church or by a convention or association of churches.

The term *qualified church-controlled organization* means any church-controlled section 501(c)(3) tax-exempt organization, other than an organization that both:

1. Offers goods, services, or facilities for sale, other than on an incidental basis, to the general public at other than a nominal charge that is substantially less than the cost of providing such goods, services, or facilities; and
2. Normally receives more than 25% of its support from the sum of governmental sources and receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities, in activities that aren't unrelated trades or businesses.

***Effect on employees.*** If a church or qualified church-controlled organization has made an election, payment for services performed for that church or organization, other than in an unrelated trade or business, won't be subject to FICA taxes.

However, the employee, unless otherwise exempt, will be subject to self-employment tax on the income. The tax applies to income of \$108.28 or more for the tax year from that church or organization, and no deductions for trade or business expenses are allowed against this self-employment income.

Schedule SE (Form 1040), Self-Employment Tax, should be attached to the employee's income tax return.

## **Political Organization Income Tax Return**

Generally, a political organization is treated as an organization exempt from tax. Certain political organizations, however, must file an annual income tax return, Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations, for any year they have political organization taxable income in excess of the \$100 specific deduction allowed under section 527.



*A political organization that has \$25,000 (\$100,000 for a qualified state or local political organization) or more in gross receipts for the tax year must file Form 990 or Form 990-EZ (and Schedule B of the form), unless excepted. See Forms 990 and 990-EZ, earlier.*

**Political organization.** *A political organization* is a party, committee, association, fund, or other organization (whether or not incorporated) organized and operated primarily for the purpose of directly or indirectly accepting contributions or making expenditures, or both, for an exempt function.

**Exempt function.** *An exempt function* means influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state, local public office or office in a political organization, or the election of the Presidential or Vice Presidential electors,

whether or not such individual or electors are selected, nominated, elected, or appointed. It also includes certain office expenses of a holder of public office or an office in a political organization.



*Certain political organizations are required to notify the IRS that they are section 527 organizations. These organizations must use Form 8871. Some of these section 527 organizations must use Form 8872 to file periodic reports with the IRS disclosing their contributions and expenditures. For a discussion on these forms, see Reporting Requirements for a Political Organization, later.*

***Political organization taxable income.***

Political organization taxable income is the excess of:

1. Gross income for the tax year  
(excluding exempt function income)  
minus

2. Deductions directly connected with the earning of gross income.

To figure taxable income, allow for a \$100 specific deduction, but don't allow for the net operating loss deduction, the dividends-received deduction, and other special deductions for corporations.

**Exempt organization not a political**

**organization.** An organization exempt under section 501(c) that spends any amount for an exempt function must file Form 1120-POL for any year in which it has political taxable income. These organizations must include in gross income the lesser of:

1. The total amount of its exempt function expenditures, or
2. The organization's net investment income.

***Separate fund.*** A section 501(c) organization can set up a separate segregated fund that will be treated as an independent

political organization. The earnings and expenditures made by the separate fund won't be attributed to the section 501(c) organization.



*Section 501(c)(3) organizations are precluded from, and may suffer loss of exemption for, engaging in any political campaign on behalf of, or in opposition to, any candidate for public office.*

**Due date.** Form 1120-POL is due by the 15th day of the 4th month after the end of the tax year. Thus, for a calendar year taxpayer, Form 1120-POL is due on April 15 of the following year. If any due date falls on a Saturday, Sunday, or legal holiday, the organization can file the return on the next business day.



*Form 1120-POL is not required of an exempt organization that makes expenditures for political purposes if its gross income doesn't exceed its directly connected deductions by more than \$100 for the tax year.*

**Extension of time to file.** Use Form 7004 to request an automatic extension of time to file Form 1120-POL. The extension will be granted if you complete Form 7004 properly, make a proper estimate of the tax (if applicable), file Form 1120-POL by the due date, and pay any tax due.

**Failure to file.** A political organization that fails to file Form 1120-POL is subject to a penalty equal to 5% of the tax due for each month (or partial month) the return is late up to a maximum of 25% of the tax due, unless the organization shows the failure was due to reasonable cause.



For more information about filing Form 1120-POL, refer to the instructions accompanying the form.

***Failure to pay on time.*** An organization that doesn't pay the tax when due generally may have to pay a penalty of 1/2 of 1% of the unpaid tax for each month or part of a month the tax isn't paid, up to a maximum of 25% of the unpaid tax. The penalty won't be imposed if the organization can show that the failure to pay on time was due to reasonable cause.

## **Reporting Requirements for a Political Organization**

Certain political organizations are required to notify the IRS that the organization is to be treated as a section 527 political organization. The organization is also required to periodically report certain contributions received and expenditures made by the organization.

To notify the IRS of section 527 treatment, an organization must file Form 8871. To report contributions and expenditures, certain tax-exempt political organizations must file Form 8872.

## **Form 8871**

A political organization must electronically file Form 8871 to notify the IRS that it is to be treated as a section 527 organization.

However, an organization isn't required to file Form 8871 if:

- It reasonably expects its annual gross receipts to always be less than \$25,000.
- It is a political committee required to report under the Federal Election Campaign Act of 1971 (FECA) (52 U.S.C. section 30101 et seq.).
- It is a state or local candidate committee.
- It is a state or local committee of a political party.

All other political organizations are required to file Form 8871.

An organization must provide on Form 8871:

1. Its name and address (including any business address, if different) and its electronic mailing address;
2. Its purpose;
3. The names and addresses of its officers, highly compensated employees, contact person, custodian of records, and members of its board of directors;
4. The name and address of, and relationship to, any related entities (within the meaning of section 168(h)(4)); and
5. Whether it intends to claim an exemption from filing Form 8872, Form 990, or Form 990-EZ.

***Employer identification number.*** If your organization needs an EIN, you can apply for one online. Click on the Employer ID Numbers (EINs) link at [IRS.gov/businesses/small](https://www.irs.gov/businesses/small).

If you previously applied for an EIN and haven't yet received it, or you are unsure whether you have an EIN, please call our toll-free customer account services number, 1-877-829-5500, for assistance.

**Due dates.** The initial Form 8871 must be filed within 24 hours of the date on which the organization was established. If there is a material change, an amended Form 8871 must be filed within 30 days of the material change. When the organization terminates its existence, it must file a final Form 8871 within 30 days of termination.

If the due date falls on a Saturday, Sunday, or legal holiday, the organization can file on the next business day.

***How to file.*** An organization must file Form 8871 electronically via the IRS Internet website at [IRS.gov/polorgs](https://www.irs.gov/polorgs).

**Form 8453-X, Political Organization Declaration for Electronic Filing of Notice of Section 527 Status.** After electronically submitting the initial Form 8871, the political organization must print, sign, and mail Form 8453-X to the IRS. Upon receipt of the Form 8453-X, the IRS will send the organization a username and password that must be used to file an amended or final Form 8871 or to electronically file Form 8872.

## **Penalties**

***Failure to file.*** An organization that is required to file Form 8871, but fails to do so on a timely basis, won't be treated as a tax-exempt section 527 organization for any period before the date Form 8871 is filed. Also, the taxable income of the organization for that period will include its exempt function income (including contributions received,

membership dues, and political fundraising receipts) minus any deductions directly connected with the production of that income.

Failure to file an amended Form 8871 will cause the organization to not be treated as a tax-exempt section 527 organization. If an organization is treated as not being a tax-exempt section 527 organization, the taxable income of the organization will be determined by considering any exempt function income and deductions during the period beginning on the date of the material change and ending on the date that the amended Form 8871 is filed.

The tax is computed by multiplying the organization's taxable income by the highest corporate tax rate.

***Fraudulent returns.*** Any individual or corporation that willfully delivers or discloses to the IRS any list, return, account, statement or other document known to be fraudulent or false as to any material matter will be fined

not more than \$10,000 (\$50,000 in the case of a corporation) or imprisoned for not more than 1 year or both.

***Waiver of penalties.*** The IRS may waive any additional tax assessed on an organization for failure to file Form 8871 if the failure was due to reasonable cause and not willful neglect.

***Additional information.*** For more information on Form 8871, see the form and its instructions. For a discussion on the public inspection requirements for the form, see *Public Inspection of Exemption Applications, Annual Returns, and Political Organization Reporting Forms*, later.

## **Form 8872**

Every tax-exempt section 527 political organization that accepts a contribution or makes an expenditure, for an exempt function during the calendar year, must file Form 8872 ***except:***

- A political organization that isn't required to file Form 8871 (discussed earlier).
- A political organization that is subject to tax on its income because it didn't file or amend Form 8871.
- A qualified state or local political organization (QSLPO), discussed below.

All other tax-exempt section 527 organizations that accept contributions or make expenditures for an exempt function are required to file Form 8872.

***Qualified state or local political organization.*** A state or local political organization may be a QSLPO if:

1. All of its political activities relate solely to state or local public office (or office in a state or local political organization).
2. It is subject to a state law that requires it to report (and it does



report) to a state agency information about contributions and expenditures that is similar to the information that the organization would otherwise be required to report to the IRS.

3. The state agency and the organization make the reports publicly available.
4. No federal candidate or office holder:
  - a. Controls or materially participates in the direction of the organization,
  - b. Solicits contributions for the organization, or
  - c. Directs the disbursements of the organization.

**Information required on Form 8872.** If an organization pays an individual \$500 or more for the calendar year, the organization is required to disclose the individual's name, address, occupation, employer,

amount of the expense, the date the expense was paid, and the purpose of the expense on Form 8872.

If an organization receives contributions of \$200 or more from one contributor for the calendar year, the organization must disclose the donor's name, address, occupation, employer, and the date the contributions were made.

For additional information that is required, see Form 8872.

**Due dates.** The due dates for filing Form 8872 vary depending on whether the form is due for a reporting period that occurs during a calendar year in which a regularly scheduled election is held, or any other calendar year (a nonelection year).

If the due date falls on a Saturday, Sunday, or legal holiday, the organization can file on the next business day.

**Election year filing.** In election years, Form 8872 must be filed on either a quarterly or a monthly basis. Both a pre-election report and a post-election report are also required to be filed in an election year. An *election year* is any year in which a regularly scheduled general election for federal office is held (an even-numbered year).

**Nonelection year filing.** In nonelection years, the form must be filed on a semiannual or monthly basis. A complete listing of these filing periods are in the Form 8872 instructions. A *nonelection year* is any odd-numbered year.

**How to file.** An organization must file Form 8872 electronically if reporting on periods after 2019. For reporting on periods before 2020, Form 8872 can be filed either electronically or by mail, but organizations that have, or expect to have, contributions or expenditures of \$50,000 or more for the year are required to file electronically.

***Electronic filing.*** File electronically via the IRS internet website at [IRS.gov/polorgs](https://www.irs.gov/polorgs). You will need a user ID and password to electronically file Form 8872. Organizations that have completed the electronic filing of Form 8871 and submitted a completed and signed Form 8453-X will receive a username and password in the mail.

Organizations that have completed the electronic filing of Form 8871, but haven't received their user ID and password can request one by writing to the following address:

Internal Revenue Service  
Attn: Request for 8872 Password  
Mail Stop 6273  
Ogden, UT 84201

***Lost username and password.*** If you have forgotten or misplaced the username and password issued to your organization after you filed your initial Form 8871,

send a letter requesting a new username and password to the address under *Electronic filing*. You can also fax your request to (801) 620-3249. It may take 3-6 weeks for your new username and password to arrive, as they will be mailed to the organization.

## **Penalty**

A penalty will be imposed if the organization is required to file Form 8872 and it:

- Fails to file the form by the due date, or
- Files the form but fails to report all of the information required or reports incorrect information.

The penalty is 21% for tax years beginning after December 31, 2017 (35% for tax years beginning before December 31 2017), of the total amount of contributions and expenditures to which a failure relates.

***Fraudulent returns.*** Any individual or corporation that willfully delivers or discloses any list, return, account, statement, or other document known to be fraudulent or false as to any material matter will be fined not more than \$10,000 (\$50,000 in the case of a corporation), or imprisoned for not more than 1 year, or both.

***Waiver of penalties.*** The IRS may waive any additional tax assessed on an organization for failure to file Form 8872 if the failure was due to reasonable cause and not willful neglect.

## **Donee Information Return**

**Dispositions of donated property.** If an organization receives charitable deduction property and within 3 years sells, exchanges, or otherwise disposes of the property, the organization must file [Form 8282, Donee Information Return](#). However, an organization isn't required to file Form 8282 if:

- The property is valued at \$500 or less, or
- The property is consumed or distributed for charitable purposes.

Form 8282 must be filed with the IRS within 125 days after the disposition. Additionally, a copy of Form 8282 must be given to the donor. If the organization fails to file the required information return, penalties may apply.

***Charitable deduction property.*** This is any property (other than money or publicly traded securities) for which the donee organization signed an appraisal summary or Form 8283, Noncash Charitable Contributions.

***Publicly traded securities.*** These are securities for which market quotations are readily available on an established securities market as of the date of the contribution.

***Appraisal summary.*** If the value of the donated property exceeds \$5,000,

the donor must get a qualified appraisal for contributions of property, see *Exceptions*, below.

***Exceptions.*** A written appraisal isn't needed if the property is:

- Nonpublicly traded stock of \$10,000 or less;
- A vehicle (including a car, boat, or airplane), if your deduction for the vehicle is limited to the gross proceeds from its sale;
- Intellectual property;
- Certain securities considered to have market quotations readily available (see Regulations section 1.170A-13(c)(7)(xi)(B));
- Inventory and other property donated by a corporation that are qualified contributions for the care of the ill,



the needy, or infants, within the meaning of section 170(e)(3)(A), or

- Any donation of stock in trade, inventory, or property held primarily for sale to customers in the ordinary course of your trade or business.

The donee organization isn't a qualified appraiser for the purpose of valuing the donated property. For more information, get Publication 561, *Determining the Value of Donated Property*.

***Form 8283.*** For noncash donations over \$5,000, the donor must attach Form 8283 to the tax return to support the charitable deduction. The donee must sign Part IV of Section B, Form 8283 unless publicly traded securities are donated. The person who signs for the donee must be an official authorized to sign the donee's tax or information returns, or a person specifically authorized to sign by that official.

The signature doesn't represent concurrence in the appraised value of the contributed property. A signed acknowledgment represents receipt of the property described on Form 8283 on the date specified on the form. The signature also indicates knowledge of the information reporting requirements on dispositions, as previously discussed. A copy of Form 8283 must be given to the donee.

## **Information Provided to Donors**

In some situations, a donor must obtain certain information from a donee organization to obtain a deduction for a charitable contribution. In other situations, the donee organization is required to provide information to the donor.

A charitable organization must give a donor a disclosure statement for a quid pro quo contribution over \$75. (See Disclosure statement., later)

This is a payment a donor makes to a charity partly as a contribution and partly for goods or services. See *Quid pro quo contribution* below for an example.

Failure to make the required disclosure may result in a penalty to the organization. A donor can't deduct a charitable contribution of \$250 or more unless the donor has a written acknowledgment from the charitable organization.

In certain circumstances, an organization may be able to meet both of these requirements with the same written document.

## **Disclosure of Quid Pro Quo Contributions**

A charitable organization must provide a written disclosure statement to donors of a quid pro quo contribution over \$75.

**Quid pro quo contribution.** A contribution made by a donor in exchange for goods or services is known as a quid pro quo contribution.

Your charitable organization must provide the donor a written statement informing the donor of the fair market value of the items or services it provided in exchange for the contribution. Generally, a written statement is required for each payment, whenever the contribution portion is over \$75.

***Example.*** If a donor gives your charity \$100 and receives a concert ticket valued at \$40, the donor has made a quid pro quo contribution. In this example, the charitable part of the payment is \$60. Even though the deductible part of the payment isn't more than \$75, a written statement must be filed because the total payment is more than \$75. If your organization fails to disclose quid pro quo contributions, the organization may be subject to a penalty.

**Disclosure statement.** The required written disclosure statement must:

1. Inform the donor that the amount of the contribution that is deductible for

federal income tax purposes is limited to the excess of any money (and the value of any property other than money) contributed by the donor over the fair market value of goods or services provided by the charity, and

2. Provide the donor with a good faith estimate of the fair market value of the goods or services that the donor received.

The charity must furnish the statement in connection with either the solicitation or the receipt of the quid pro quo contribution. If the disclosure statement is furnished in connection with a particular solicitation, it isn't necessary for the organization to provide another statement when it actually receives the contribution.

No disclosure statement is required if any of the following are true.

1. The goods or services given to a donor have insubstantial value, as described in Rev. Proc. 90-12, 1990-1 C.B. 471, [Rev. Proc. 90-12](#), and Rev. Proc. 92-49, 1992-1 C.B. 507 (as adjusted for inflation), [Rev. Proc. 92-49](#).
2. There is no donative element involved in a particular transaction with a charity (for example, there is generally no donative element involved in a visitor's purchase from a museum gift shop).
3. There is only an intangible religious benefit provided to the donor. The intangible religious benefit must be provided to the donor by an organization organized exclusively for religious purposes, and must be of a type that generally isn't sold in a commercial transaction

outside the donative context.

For example, a donor who, for a payment, is granted admission to a religious ceremony for which there is no admission charge is provided an intangible religious benefit. A donor isn't provided intangible religious benefits for payments made for tuition for education leading to a recognized degree, travel services, or consumer goods.

4. The donor makes a payment of \$75 or less per year and receives only annual membership benefits that consist of:
  - a. Any rights or privileges (other than the right to purchase tickets for college athletic events) that the taxpayer can exercise often during the membership period, such as free or discounted admissions or parking or

preferred access to goods or services; or

- b. Admission to events that are open only to members and the cost per person of which is within the limits for low-cost articles described in Rev. Proc. 90-12 (as adjusted for inflation), [Rev. Proc. 90-12](#).

***Good faith estimate of fair market value (FMV).*** An organization can use any reasonable method to estimate the FMV of goods or services it provided to a donor, as long as it applies the method in good faith.

The organization can estimate the FMV of goods or services that generally aren't commercially available by using the FMV of similar or comparable goods or services. Goods or services may be similar or comparable even if they don't have the unique qualities of the goods or services being valued.



**Example 1.** A charity provides a 1-hour tennis lesson with a tennis professional for the first \$500 payment it receives. The tennis professional provides 1-hour lessons on a commercial basis for \$100. A good faith estimate of the lesson's FMV is \$100.

**Example 2.** For a payment of \$50,000, a museum allows a donor to hold a private event in a room of the museum. A good faith estimate of the FMV of the right to hold the event in the museum can be made by using the cost of renting a hotel ballroom with a capacity, amenities, and atmosphere comparable to the museum room, even though the hotel ballroom lacks the unique art displayed in the museum room. If the hotel ballroom rents for \$2,500, a good faith estimate of the FMV of the right to hold the event in the museum is \$2,500.

**Example 3.** For a payment of \$1,000, a charity provides an evening tour of a museum conducted by a well-known artist.

The artist doesn't provide tours on a commercial basis. Tours of the museum normally are free to the public. A good faith estimate of the FMV of the evening museum tour is \$0 even though it is conducted by the artist.

**Penalty for failure to disclose.** A penalty is imposed on a charity that doesn't make the required disclosure of a quid pro quo contribution of more than \$75. The penalty is \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing. The charity can avoid the penalty if it can show that the failure was due to reasonable cause.

### **Acknowledgment of Charitable Contributions of \$250 or More**

A donor can deduct a charitable contribution of \$250 or more only if the donor has a written acknowledgment from the charitable organization.

The donor must get the acknowledgment by the earlier of:

1. The date the donor files the original return for the year the contribution is made, or
2. The due date, including extensions, for filing the return.

The donor is responsible for requesting and obtaining the written acknowledgment from the donee. A charitable organization that receives a payment made as a contribution is treated as the donee organization for this purpose even if the organization (according to the donor's instructions or otherwise) distributes the amount received to one or more charities.

**Quid pro quo contribution.** If the donee provides goods or services to the donor in exchange for the contribution (a quid pro quo contribution),

the acknowledgment must include a good faith estimate of the value of the goods or services. See *Disclosure of Quid Pro Quo Contributions*, earlier.

**Form of acknowledgment.** Although there is no prescribed format for the written acknowledgment, it must provide enough information to substantiate the amount of the contribution. For more information, see Publication 1771, Charitable Contributions – Substantiation and Disclosure Requirements.

**Cash contributions.** To deduct a contribution of cash, a check, or other monetary gift (regardless of the amount), a donor must maintain a bank record or a written communication from the donee organization showing the donee's name, date, and amount of the contribution. In the case of a lump-sum contribution (rather than a contribution by payroll deduction) made through the Combined Federal Campaign or a similar program such as a United Way

Campaign, the written communication must include the name of the donee organization that is the ultimate recipient of the charitable contribution.

***Contributions by payroll deduction.*** An organization may substantiate an employee's contribution by deduction from its payroll by:

- A pay stub, Form W-2, or other document showing a contribution to a donee organization, together with
- A pledge card or other document from the donee organization that shows its name.

For contributions of \$250 or more, the document must state that the donee organization provides no goods or services for any payroll contributions. The amount withheld from each payment of wages to a taxpayer is treated as a separate contribution.

## **Acknowledgment of Vehicle Contribution**

If an exempt organization receives a contribution of a qualified vehicle with a claimed value of more than \$500, the donee organization is required to provide a contemporaneous written acknowledgment to the donor. The donee organization can use a completed Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, for the contemporaneous written acknowledgment. See section 3.03 of [Notice 2005-44, 2005-25 I.R.B. 1287](#) for guidance on the information that must be included in a contemporaneous written acknowledgment and the deadline for furnishing the acknowledgment to the donor.

Any donee organization that provides a contemporaneous written acknowledgment to a donor is required to report to the IRS the information contained in the acknowledgment.

The report is due by February 28 (March 31 if filing electronically) of the year following the year in which the donee organization provides the acknowledgment to the donor. The organization must file the report on Copy A of Form 1098-C.

An organization that files Form 1098-C on paper should send it with Form 1096, Annual Summary and Transmittal of U.S. Information Returns. See the Instructions for Form 1096 for the correct filing location.

An organization that is required to file 250 or more Forms 1098-C during the calendar year must file the forms electronically or magnetically. Specifications for filing Form 1098-C electronically or magnetically can be found in Publication 1220, Specifications for Filing Forms 1097, 1098, 1099, 3921, 3922, 5498, 8935, and W-2G Electronically at [Pub. 1220](#).

## Acknowledgment



*For a contribution of a qualified vehicle with a claimed value of \$500 or less, don't file Form 1098-C. However, you can use it as the contemporaneous written acknowledgment under section 170(f)(8) by providing the donor with Copy C only. See the Instructions for Form 1098-C.*

Generally, the organization should complete Form 1098-C as the written acknowledgment to the donor and the IRS. The contents of the acknowledgment depend upon whether the organization:

- Sells a qualified vehicle without any significant intervening use or material improvement,
- Intends to make a significant intervening use of or material improvement to a qualified vehicle prior to sale, or



- Sells a qualified vehicle to a needy individual at a price significantly below fair market value, or a gratuitous transfer to a needy individual in direct furtherance of a charitable purpose of the organization of relieving the poor and distressed or the underprivileged who are in need of a means of transportation.

For more information on the acknowledgment, see [Notice 2005-44](#).

**Material improvements or significant intervening use.** To constitute significant intervening use, the organization must actually use the vehicle to substantially further the organization's regularly conducted activities, and the use must be significant, not incidental. Factors in determining whether a use is a significant intervening use depend on the nature, extent, frequency, and duration. For this purpose, use includes providing transportation on a regular basis for a significant period of time or significant use

directly related to training in vehicle repair. Use doesn't include the use of a vehicle to provide training in business skills, such as marketing or sales. Examples of significant use include:

- Driving a vehicle every day for 1 year to deliver meals to needy individuals, if delivering meals is an activity regularly conducted by the organization.
- Driving a vehicle for 10,000 miles over a 1-year period to deliver meals to needy individuals, if delivering meals is an activity regularly conducted by the organization.

Material improvements include major repairs and additions that improve the condition of the vehicle in a manner that significantly increases the value. To be a material improvement, the improvement can't be funded by an additional payment to the organization from the donor of the vehicle.

Material improvements don't include cleaning, minor repairs, routine maintenance, painting, removal of dents or scratches, cleaning or repair of upholstery, and installation of theft deterrent devices.

**Penalties.** If your charitable organization receives contributions of used motor vehicles, boats, and airplanes valued over \$500, it may be subject to a penalty if it knowingly:

- Fails to furnish an acknowledgement in a timely manner, showing the required information; or
- Furnishes a false or fraudulent acknowledgement of the contribution.



*Other penalties may apply. See Part O in the current General Instructions for Certain Information Returns.*

An acknowledgment containing a certification will be presumed to be false or fraudulent if the qualified vehicle is sold to a buyer other than a needy individual without a significant

intervening use or material improvement within 6 months of the date of the contribution.

If a charity sells a donated vehicle at auction, the IRS won't accept as substantiation an acknowledgment from the charity stating that the vehicle is to be transferred to a needy individual for significantly below fair market value. Vehicles sold at auction aren't sold at prices significantly below fair market value, and the IRS won't treat vehicles sold at auction as qualifying for this exception.

The penalty for a false or fraudulent acknowledgment where the donee certifies that the vehicle won't be transferred for money, other property, or services before completion of material improvements or significant intervening use or the donee certifies that the vehicle is to be transferred to a needy individual for significantly below fair market value in furtherance of the

donee's charitable purpose is the larger of \$5,000 or the claimed value of the vehicle multiplied by 39.6%.

The penalty for an acknowledgment relating to a qualified vehicle being sold in an arm's length transaction to an unrelated party is the larger of the gross proceeds from the sale or the sales price stated in the acknowledgment multiplied by 39.6%.

## **Qualified Intellectual Property**

A taxpayer who contributes qualified intellectual property to a charity may be entitled to a charitable deduction, in addition to any initial deduction allowed in the year of contribution. The additional deduction is based on a specified percentage of the qualified donee income with respect to the qualified intellectual property. To qualify for the additional charitable deduction, the donor must provide notice to the donee at the time of the contribution that the donor intends to

treat the contribution as qualified intellectual property contribution for purposes of sections 170(m) and 6050L.

Every donee organization described in section 170(c) (except a private foundation, as defined in section 509(a), that isn't described in section 170(b)(1)(F)) that receives or accrues net income from a charitable gift of qualified intellectual property must file Form 8899.

**Form 8899.** Form 8899, Notice of Income from Donated Intellectual Property, is used by a donee to report net income from qualified intellectual property to the donor of the property and to the IRS and is due by the last day of the first full month following the close of the donee's tax year. This form must be filed for each tax year of the donee in which the donated property produces net income, but only if all or part of that tax year occurs during the 10-year period beginning on the

date of the contribution and that tax year doesn't begin after the expiration of the legal life of the donated property.

**Qualified donee income.** Qualified donee income is any net income received by or accrued to the donee that is properly allocable to the qualified intellectual property for the tax year of the donee which ends within or with the tax year of the donor. Income isn't treated as allocated to qualified intellectual property if it is received or accrued after the earlier of the expiration of the legal life of the qualified intellectual property, or the 10-year period beginning with the date of the contribution.

**Qualified intellectual property.** Qualified intellectual property is generally any patent, copyright, trademark, trade name, trade secret, know-how, software or similar property, or applications or registrations of such property (other than property contributed to or for the use of a private

foundation, as defined in section 509(a) that isn't described in section 170(b)(1)(F)). See *Exceptions* below.

***Exceptions.*** The following property isn't considered qualified intellectual property for purposes of the additional charitable deduction:

1. Computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified.
2. A copyright held by a taxpayer:
  - Whose personal efforts created the property, or
  - In whose hands the basis of the property is determined, for purposes of determining gain from a sale or exchange, in whole or in part by reference to the basis of the property in the hands of a taxpayer whose personal efforts created the property.



## **Report of Cash Received**

An exempt organization that receives, in the course of its activities, more than \$10,000 cash in one transaction (or two or more related transactions) that isn't a charitable contribution must report the transaction to the IRS on Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.

## **Public Inspection of Exemption Applications, Annual Returns, and Political Organization Reporting Forms**

The general rule under section 6103 is that returns and return information of all taxpayers are confidential except as authorized under the Code. Section 6104 provides exceptions to the general rule of confidentiality for disclosure of certain information about exempt organizations.

In addition, included in this section is a discussion on the public inspection requirements for political organizations filing Forms 8871 and 8872.

## **Annual Information Return**

An exempt organization must make available for public inspection, upon request and without charge, a copy of its original and amended annual information returns. Each information return must be made available from the date it is required to be filed (determined with regard to any extensions), or is actually filed, whichever is later. An original return doesn't have to be made available if more than 3 years have passed from the date the return was required to be filed (including any extensions) or was filed, whichever is later. An amended return doesn't have to be made available if more than 3 years have passed from the date it was filed.