

# Maintaining 501(c)(3) Tax-Exempt Status Overview Course

## Slide 1 – Title Page

## Slide 2 – Welcome to the Maintaining 501(c)(3) Tax-Exempt Status Course

Welcome to the Maintaining 501(c)(3) Tax-Exempt Status Overview course. This course is presented by the Tax Exempt & Government Entities division's Exempt Organizations office.

## Slide 3 – Introduction

**Leagle:** I'm Leagle, the StayExempt Eagle, and I'll guide you through the courses here at StayExempt. During this course, you'll engage in several Knowledge Checks. These questions will reinforce your learning experience.

## Slide 4 – Objectives

**Leagle:** In this course, we'll talk about running an organization properly, once 501(c)(3) tax-exempt status is achieved. To do that, you'll need to know what responsibilities you have and what activities can jeopardize your organization's 501(c)(3) status. You'll also find it helpful to familiarize yourself with the charitable solicitation rules of your state - and learn a bit about "good governance" practices.

First, let's start by meeting someone who just got their tax-exempt status.

## Slide 5 – Life Cycle Review

**Richard:** Hi, I'm Richard! I just received my determination letter from the IRS. It says my animal rescue organization, *Cute and Curly Animal Rescue*, has been recognized under Section 501(c)(3) of the Internal Revenue Code as exempt from federal income tax. I've always loved taking care of animals, so managing this animal rescue correctly is really important to me.

Starting my organization and applying for tax-exempt status were big steps - and I want to make sure I do everything I can to comply with the law. Leagle, can you offer any advice?

**Leagle:** Sure I can, Richard. Maintaining your federal tax-exempt status isn't difficult, but it sure helps if you're aware of your organization's required interactions with the IRS.

Here's the five-stage "[life cycle of a public charity](#)" tool the IRS uses to illustrate those interactions and when they occur. You've already completed the first two stages of the process: starting out and applying for exemption – as you may remember during our [Applying for 501\(c\)\(3\) Status Overview](#) course. Here's a link if you'd like to review.

Now, you have general responsibilities described in the three remaining stages: required filings, ongoing compliance and significant events.

**REQUIRED FILINGS:** Annual Exempt organization returns; Unrelated business income tax filings; Other returns and reports

**ONGOING COMPLIANCE:** Jeopardizing exemption; Employment taxes; Public disclosure requirements; Other ongoing compliance issues

**SIGNIFICANT EVENTS:** Audits; Private letter rulings; Termination proceedings

Although these topics were briefly covered in the [Applying for Section 501\(c\)\(3\) Status Overview course](#), these three stages are most important to the daily operation of your organization. We'll cover them in more detail now.

Let's start out with Required Filings.

### **Slide 6 – Required Filings - Recordkeeping**

**Richard:** Thanks for helping me keep up with the requirements of a tax-exempt organization! What should I focus on first?

**Leagle:** It's a good idea to take a look at the IRS's [Life Cycle tool](#).

A very important stage of the Life Cycle is "[Required Filings](#)," which helps you understand just what to file with the IRS. But, before you learn what forms to use and when to file them, let's talk about something that will help you prepare – and that's Recordkeeping! If you don't keep accurate and detailed records of your organization's activities, you won't have the information you need to complete the filing requirements.

**Richard:** But I'm still not sure what records I really need to keep.

**Leagle:** I think my friend Vernon can help you with that. He's the treasurer of his Parent Teacher Organization.

**Vernon:** Hi Richard! I've managed a lot of records for our organization, which is classified as a public charity, just like yours. Your organization's going to have all kinds of financial records. You need to keep any accounting information you have, whether you do it using paper files, like I do, or fancy computer software.

**Leagle:** That's right. You should also maintain a set of Permanent Records, which includes your organizing document (which is sometimes called your Articles of Incorporation or your Charter), a copy of your Form 1023 (the exemption application you submitted), and the determination letter from the IRS you just mentioned.

**Vernon:** Have you filed any returns with the IRS yet?

**Richard:** No, not yet.

**Vernon:** Be sure to keep copies of any returns and attachments you send to the IRS. And keep the records you used to prepare the returns handy, too! This includes your financial records and other things, like information about your organization's programs, meeting minutes for the governing board, and minutes for any standing committees - like an executive or compensation committee. The IRS suggests keeping copies of returns and any supporting information for at least three years **after** you file the return.

**Leagle:** Next, let's talk more about the financial records you need to keep.

### **Slide 7 – Required Filings – Financial Records**

**Richard:** What kind of financial records **do** I need to keep?

**Vernon:** There are four basic types of financial records you should keep. They can be categorized as

Money coming in; Money going out; Employment tax records; and Asset records

**Leagle:** Let's discuss each type of record. Select the Money Coming In button to learn more.

### **Slide 8 – Financial Records – Money Coming In**

**Leagle:** First, I recommend that you keep records of all the money that comes into your organization. This includes cash register receipts, bank deposit slips, receipt books, invoices, credit card slips and any [Form 1099-MISC](#) documents you send to the IRS.

Save these records for three years **after** the date the return is due or filed, whichever is later, because during that time, you can amend a return to claim a credit or refund. Generally, this is also the period when the IRS can assess penalties or additional tax. In either case, you'll need those records.

And remember that some interested parties, such as a grantor, insurance company, creditor, or state agency, may require you to keep certain records for a longer time. You should check with them for their requirements.

Next, let's talk about money going out.

### **Slide 9 – Financial Records – Money Going Out**

**Leagle:** You should save any documents that show expenses you incurred while running your organization and its programs, including account statements, canceled checks, cash register receipts, credit card sales slips, invoices and petty cash slips.

If your organization produces and sells items, save documents on the materials you purchased to **produce** those items. These records will also help you determine the value of your inventory at the end of the year.

As I mentioned earlier, you should save these documents for three years after the date the return is due or filed, whichever is later.

For more information, see [Publication 538, Accounting Periods and Methods](#).

Next, let's talk about Employment Tax Records.

### **Slide 10 – Financial Records – Employment Tax Records**

**Leagle:** You should save all employment tax records, including any documents that show salaries, wages, benefits paid and taxes withheld. You may think employment tax records sound like "money going out," but these documents are really a separate category. Employment records should be kept for at least 4 years.

There are other employment-related items that deserve special attention. For those, take a look at [Publication 15 \(Circular E\), Employer's Tax Guide](#), for more information.

Finally, let's talk about the Asset Records.

### **Slide 11 – Financial Records – Asset Records**

**Leagle:** Asset records are documents showing the items your organization owns and uses in its activities, such as investments, buildings and furniture.

Asset records should show:

- When and how the asset was acquired
- Whether any debt was used to acquire it
- Purchase price
- Selling price and expense of sale
- Cost of any improvements
- Deductions taken for depreciation or for casualty losses, such as fires or storms
- How the asset is or was used
- When and how the asset was disposed of

Some example documents include purchase and sales invoices, real estate closing statements, cancelled checks or certain financial account statements as well as financing documents.

Finally, you should keep these documents for as long as you own the asset, plus three years **after** you dispose of the item.

Now that you understand the types of financial records you need to keep, let's try an activity.

### **Slide 12 – Recordkeeping Skills Challenge**

**Leagle:** Let's try an exercise. Richard is still unsure of what documents fall into each category. Help him place the documents in the correct category.

First, Richard has a pile of canceled checks for office supplies. Which category should this fall under?

**Money coming In**

**Money going out**

**Employment tax records**

**Asset records**

**Trash can**

The correct answer is **money going out**.

Next, he's not sure about a credit card receipt for a new desk. Which would this be?

**Money coming In**

**Money going out**

**Employment tax records**

**Asset records**

**Trash can**

The correct answer is that this is an **asset record**.

A volunteer just dropped off a bank deposit slip. Which category does it fall under?

**Money coming In**

**Money going out**

**Employment tax records**

**Asset records**

**Trash can**

The correct answer is that this is **money coming in**.

Someone left out the packing box for that new desk. Where does this belong?

**Money coming In**

**Money going out**

**Employment tax records**

**Asset records**

**Trash can**

The correct answer is that this belongs in the **trash can** (or recycle bin).

Finally, Richard needs to file a few salary documents. Which would this be?

**Money coming In**

**Money going out**

**Employment tax records**

**Asset records**

**Trash can**

The correct answer is that this is an employment tax records.

### **Slide 13 – Required Filings – Record Keeping System**

**Richard:** So, what record-keeping system should I use?

**Leagle:** Generally, the IRS doesn't require a specific recordkeeping system, so you can choose one that makes sense for your organization. But remember:

If your organization has more than one program, your recordkeeping system should allow you to track the income and expenses for **each** program separately.

Also, your records should include a summary of transactions. This summary can be listed in your books (including journals and ledgers). Or many small organizations use checkbooks as the main source for entries into the books, and that is fine, too.

Next, we'll learn about the accounting periods and methods your organization should use in its reporting.

## Slide 14 – Accounting Periods and Methods

**Leagle:** It's important for you to know if your organization will report to the IRS using a **calendar** year or a **fiscal** year. And, you should choose whether your organization will use a **cash** or **accrual** accounting method - or some sort of **combination** of the two.

Under the **cash accounting method**, revenue and expenses are recorded in the period they are actually received or expended in cash.

Under the **accrual method**, revenue and expenses are recorded in the period they are earned or incurred, regardless of whether cash is received or disbursed in that period.

With a **combination** – or “**hybrid**” accounting method, cash accounting is used for some items and accrual is used for others.

**Vernon:** Every organization must use a consistent accounting method, which is a set of rules for determining when to report income and expenses. Under the cash method, generally, you report income in the tax year you received it; and you deduct expenses in the tax year you paid them.

Generally, under an accrual method, you report income in the tax year you earn it, regardless of when payment is received. You deduct expenses in the tax year you incur them, regardless of when payment is made.

My organization, for example, uses the cash method and the calendar year as its reporting (or “tax”) year.

**Leagle:** An organization typically makes these decisions when it begins operating and before it files its first annual tax return. When you applied for exemption, you used your application to tell the IRS what tax year and accounting method you planned to use. Make sure you know what your organization told the IRS, so you report the right items at the right time - using the right method.

The following publications offer more information on recordkeeping:

[Publication 538, Accounting Periods and Methods](#)

[Publication 583, Starting a Business and Keeping Records](#)

Now that we know about the records you should keep and a little bit about how you'll report - and for what period - let's talk about what you have to **send** to the IRS.

## Slide 15 – Required Filings – Form 990 Options

**Richard:** Okay, so what am I required to file with the IRS?

**Vernon:** There are details on annual filing requirements on the [Required Filings page](#) of the Lifecycle at IRS.gov. You'll probably need to file one of the Form 990-series returns – which is the annual information return required for most tax-exempt organizations. Which one you'll file will depend on the **type** of your organization, the amount of your annual gross receipts and the total of your organization's assets at the end of the tax year. [www.irs.gov/990filing](http://www.irs.gov/990filing) shows the dollar thresholds for different forms. You'll also see them in the Form 990 course here on StayExempt.

**Richard:** Do all tax-exempt organizations have to file a Form 990-series return?

**Leagle:** Churches and certain church-affiliated organizations don't have an [annual filing requirement](#), but they may have other filing requirements, such as employment tax returns.

It's important to note that there are serious consequences for not filing a required annual information return. If your organization doesn't file for three years in a row, its tax-exempt status will be automatically revoked on the due date of the third return. If your tax-exempt status is revoked for not filing - and you want to get your status back - you'll have to redo the application process, including filing Form 1023 and paying the appropriate user fees. Once revoked, if you want your reinstatement to be retroactive (which means "dated back to the day it was revoked"), you'll have to show you had reasonable cause for not filing. So, my best advice is to file annually.

More information is available in [Publication 4221-PC](#), Compliance Guide for 501(c)(3) Public Charities.

Remember that in addition to submitting an annual return, you may need to submit filings for your unrelated business income, or UBI. See the [Unrelated Business Income course](#) here at StayExempt for more details.

#### **Slide 16 - Required Filings - UBI Basics**

**Richard:** OK, so what's UBI?

**Vernon:** Generally, unrelated business income is any income from trade or business activity that your organization conducts on a regular basis - that's **not** substantially related to your organization's exempt purpose. There are lots of activities that can generate UBI, such as commercial advertising in publications created by your organization - or selling goods or services to the public. Income from unrelated activities like these might be taxable. Calculating and reporting UBI is a requirement for maintaining your tax-exempt status. Keep in mind that too much unrelated business can jeopardize your tax exemption.

**Richard** – Hey, that sounds pretty easy.

**Leagle** – Not entirely. I've just given you a VERY simple explanation, but don't worry. There's a whole course [dedicated to UBI](#) here on StayExempt. The course teaches you which activities generate UBI. Once you understand UBI, filing the form to report the income and pay any tax due is relatively straightforward.

Also see [Publication 598](#), Tax on Unrelated Business Income of Exempt Organizations (page 5).

**Richard** – I'll remember to look into that. Is there anything else?

**Leagle** – You might need to file other returns depending on your organization's activities. You can find out about those on the IRS website as well, but Form 990 is the biggest and most important.

The next stage in the lifecycle is ongoing compliance.

#### **Slide 17 - Ongoing Compliance**

**Richard** – I understand that most organizations have an annual filing requirement. What's next?

**Vernon** – Do you know the particulars about what your organization must do – or must not do – to safeguard its exempt status?

**Richard** – I think so. I can't do too many activities that don't directly promote my organization's exempt purpose, which is to prevent animal cruelty.

**Leagle** – That's true. But there are other do's and don'ts associated with tax-exempt status, which is what this next stage covers. For example, many activities can jeopardize your tax-exempt status, such as political activity, lobbying, or permitting private benefit or inurement. We'll be covering those later in this course.

**Vernon** - Another challenge facing exempt organizations is accurately classifying and reporting on any paid workers they have. If your organization compensates anyone for services – either employees or independent contractors – there are rules you need to follow. The [Employment Issues course](#) here at StayExempt will help you sort all of that out.

**Leagle** - There are two more ongoing compliance issues you need to be aware of, and we'll go over those next.

### **Slide 18 – Ongoing Compliance - Public Inspection**

**Richard** – What do I have to share with the public?

**Leagle** – Tax-exempt organizations must make their exemption application, your determination letter and the three most recently-filed annual information returns available to the public, upon request and without charge (except for a reasonable charge for copying). If your organization is a 501(c)(3) and files Form 990-T, *Exempt Organization Business Income Tax Return*, the three most recent of that return must be made available as well.

**Richard** – What about other records I'm keeping?

**Leagle** – You only have to disclose the forms themselves, any attachments or separate items you sent in with the forms, and any correspondence you may have had with the IRS about the forms. There is an exception, though. If you had to file Schedule B of Form 990, that schedule is NOT required to be open for public inspection.

For your Form 1023, for example, you would also make your organizing document available for public inspection, because you sent that document to the IRS when you submitted Form 1023. Same for the determination letter you received back from the IRS at the end of the application process – that has to be made available. On the other hand, the internal books and records you use to prepare your Form 990 aren't subject to the inspection requirements, because you didn't send them in as part of your Form 990 filing – you just used them to prepare it.

**Richard** – Where should I keep the items subject to public inspection?

**Leagle** – You have to make the documents available at the organization's principal office during regular business hours - as requests can be made in person or in writing. There are more specifics about how and when to meet the public inspection requirements in the [Required Disclosures course](#) here at StayExempt.

Finally, there is one last stage: Significant Events.



### **Slide 19 – Significant Events**

**Richard** – The last stage is significant events. What kinds of significant events are there?

**Leagle** – The significant events all have to do with your tax-exempt status. The events include, but aren't limited to: audits, private letter rulings and termination proceedings. More information on this stage can be found using this link.

Before we test your knowledge, let's go over what we've covered so far.

### **Slide 20 – Recap**

**Leagle** – We talked about the tax-exempt status lifecycle as it applies to organizations maintaining their tax-exempt status. This included issues such as record keeping, annual returns and unrelated business income.

We also mentioned jeopardizing tax-exempt status (which we'll cover later in this course), employment tax issues, public inspection requirements and we talked other significant events for tax-exempt organizations. Now that you've learned about the stages of the lifecycle, let's try an exercise.

### **Slide 21 – Knowledge Check**

**Leagle** – Let's test your knowledge. Which of the following are responsibilities that will keep Richard's organization from losing its tax-exempt status? Select the best answer.

Which of the following includes required responsibilities of Section 501(c)(3) organizations?

- A) Annual Filings, Public Inspection
- B) Letter Writing, Annual Gala Events
- C) House Cleaning, Power-washing
- D) Political Organizing, Lobbying

The correct answer is A - Annual Filings, Public Inspection

### **Slide 22 – Knowledge Check**

What will happen to Richard's organization if he fails to file Form 990, Form 990-EZ or Form 990-N for three years in a row? Select the best answer.

- A) Tax-exempt status revoked for three years
- B) Tax-exempt status revoked and loss of eligibility to receive tax-deductible donations
- C) Tax-exempt status revoked and a lifetime ban from 501(c)(3) status
- D) Tax-exempt status revoked, and bread and water for 3 years

The correct answer is B.

### **Slide 23 – Progress Check**

**Leagle** – Congratulations! You've completed the responsibilities and lifecycle section of this course. Next, you'll learn more about activities that can jeopardize the tax-exempt status of your organization.

## Slide 24 Jeopardizing Your Tax-Exempt Status

**Richard** – I know about the things I’m supposed to do to keep my tax-exempt status. What about the things I’m **not** supposed to do?

**Vernon** – There are four major categories of activities that can jeopardize your tax-exempt status. Lobbying, political campaign intervention, activities generating excessive unrelated business income, and private benefit/inurement.

**Leagle** - Some of these activities are absolutely prohibited, while others are restricted. Let’s take a quick look at the first three - and an in-depth look at the fourth, Prohibited Political Activities.

## Slide 25 Prohibited Political Activities

**Richard** – Isn’t lobbying a form of political campaign intervention?

**Leagle** – Actually, lobbying and political campaign intervention are two different things; Lobbying is any activity designed to influence legislation, while political campaign intervention is participating in a political campaign on behalf of, or in opposition to, a candidate for public office. Though they are both related to politics, the activities are different - as are the rules for exempt organizations participating in them.

501(c)(3) organizations can conduct a little lobbying without jeopardizing exemption; it just can’t be a principal activity of the organization. The “Three L’s” help me remember the rule here: **L**obbying is about **L**egislation - and a 501(c)(3) can do a **L**imited amount of it.

The rule for 501(c)(3)s and political activity is very different: A 501(c)(3) can’t conduct **any** political activity. I use the “Three P’s” to keep this rule straight: **P**olitical activity is about **P**eople running for office and 501(c)(3)s are **P**rohibited from getting involved, either **for** or **against**. Doing so jeopardizes their exemption.

You’ll find lots more about prohibited political intervention in a course called [Political Campaigns and Charities: The Ban on Political Campaign Intervention](#).

Let’s talk a little bit more about unrelated business income next.

## Slide 26 Unrelated Business Activity

**Richard** – What else can you tell me about UBI?

**Vernon** – Like I said before, Unrelated Business Income is any income you generate from business activities that occur on a regular basis and are **not** substantially related to the exempt purpose of your organization. The tests and criteria for determining if a fundraising activity generates UBI are covered in the [UBI course](#) here at StayExempt.

**Leagle** – Let me point out two things about UBI:

First, funds generated through unrelated business activities can be subject to taxes. But, what’s more important is that if too many of your activities are **not** related to your exempt purpose, you are jeopardizing your exempt status. Remember, your organization received tax-exempt status because you told the IRS it would pursue an exempt purpose. If it’s not doing that, the reason for tax-exempt status isn’t there either.

Next, let's talk about Private Benefits and Inurement.

### Slide 27 Private Benefit and Inurement

**Richard** – What are private benefit and inurement?

**Leagle** – Private benefit and inurement are two separate but closely related concepts. Let's look at private benefit first.

**Vernon** - Private Benefit is any activity that substantially benefits the private interest of an individual or organization, right?

**Leagle** – Exactly. A 501(c)(3)s must avoid all activities that provide primarily **private** benefit. The 501(c)(3)'s activities must serve a **public** interest.

**Richard**: What if I have employees? Isn't a salary some kind of private interest?

**Leagle** – No, this doesn't mean a 501(c)(3) can't pay reasonable salaries to its employees or provide services to its constituents. Rather, it means the organization can't be operated - or its income or assets used in such a way - that someone receives a **substantial** private benefit well beyond what would be considered reasonable compensation for work.

Let's talk about inurement next.

### Slide 28 Inurement

**Richard** – What's inurement?

**Vernon** – The concept of inurement takes the notion of private benefit a bit further. I mentioned that you can't conduct activities that will provide anyone with a substantial private benefit. When it comes to "**insiders**" of the organization, absolutely **none** of the income or assets can accrue to their benefit.

**Leagle** – In case you haven't heard that term before, Richard, an "insider" is a person who has a personal and private interest in the activities of the organization.

**Richard** – I'm still not sure who would qualify as an insider.

**Leagle** – Examples of typical insiders are officers, directors and key employees—like you.

**Richard** – Can you give me some examples of inurement?

**Leagle** – Sure. Some examples include paying dividends or unreasonable compensation to insiders, as well as transferring property to insiders for less than fair market value.

Let's talk about the repercussions of providing inurement.

### Slide 29 Inurement is Forbidden

**Richard** – Are there any cases where inurement is allowed?

**Leagle** – No. **Any** amount of inurement is grounds for loss of tax-exempt status - and the insider involved may be subject to excise tax. But, if the activities of an organization privately benefit someone who is **not** an insider, that benefit must be substantial in order to jeopardize the organization's tax-exempt status. But as I said earlier, prohibited inurement or private benefit doesn't include reasonable payments for services, other payments that further tax-exempt purposes, or payments for the fair market value of real or personal property.

### Slide 30 Charitable Solicitation

**Richard** – I'm eager to start collecting funds, but I'm worried I may be breaking some rules in that area.

What should I know first?

**Leagle** – First of all, each state has laws regulating fundraising - as well as how you go about soliciting donations. These include: requiring that you register your organization, special rules when fundraising activities involve paid solicitors and fundraisers counsel, and specific procedures for filing financial reports.

Each state is different, so be sure to check with each state you'll be fundraising in to confirm their requirements.

### Slide 31 Tips for Governance

**Richard** – What are your governance tips for my organization?

**Leagle** – Well, we've found that an organization is more likely to operate effectively and consistently with tax law requirements if it can clearly articulate its purpose, selects a knowledgeable and committed governing body and management team, and adopts sound management practices.

The IRS requests information about an organization's governance on the application for tax exemption - and again annually on the information return most organizations must file.

Before we do an exercise, let's go over what we've covered in this section.

### Slide 32 Recap

**Leagle** – In this section, we discussed how to avoid jeopardizing your tax-exempt status. First, we talked about political campaign intervention and lobbying. There's a separate course on [political campaign intervention](#), but you should have a basic understanding of what those things are. Then we talked about Unrelated Business Income and how that might jeopardize your tax-exempt status. We covered private benefit and inurement. Your organization shouldn't engage in activities that substantially benefit the private interest of any individual or organization, nor allow any income or assets to accrue for the benefit of insiders. And we discussed how to find out more about charitable solicitation rules for your state and implementing good governance practices.

Next, let's try an exercise to see if you are ready to move on.

### Slide 33 Case Study

**Script: Leagle** - Let's test your knowledge. Read Richard's scenario, then choose the best answer. Select the submit button to check your answer.

Richard is the President of Cute and Curly Animal Rescue. His by-laws require that he has a seven-member board of directors - and he's a voting member.

Richard also owns 49% of the for-profit Precious Pets pet store. His sister, Deborah, owns 51% of the business and runs the pet store. Cute and Curly Animal Rescue contracted

with Precious Pets for \$200,000 worth of animal food and supplies. Richard signed the contract without consulting his board of directors for action. Richard's sister knows there won't be a competitive bid for the contract, so she decided to bill for 120% of the fair market value for the products. She called the contract the "Precious Pets Deluxe" package, but in reality, they are the same products she provides to her other customers.

**True or False:** Does this scenario show private benefit or inurement?

The correct answer is True. This is an example of inurement.

- a. Richard is an insider because he has a personal financial interest in Cute and Curly Rescue taking the contract with Precious Pets as a part owner.
- b. Richard used his position with Cute and Curly Animal Rescue to steer the contract towards Precious Pets.
- c. The fact that Richard, as president of Cute and Curley, signs a contract to do business with Precious Pets without competitive bidding, or a search for alternative providers, is probably enough to show inurement.
- d. Deborah's decision to overcharge for the supplies creates a situation where there's clearly impermissible inurement to Richard.

If this kind of a scenario was discovered in an audit, the examining agent would likely propose "intermediate sanctions" on the insider, such as repaying the excessive amount. Depending upon the facts and circumstances, the agent might propose additional sanctions on the organization and/or revocation of its exemption.

### Slide 34 Knowledge Check

**Leagle** – Here's another test. Paying dividends or unreasonable compensation to insiders and transferring property to insiders for less than fair market value are considered which 501(c)(3) prohibited activity? Select the best answer. When you're done, select the "submit" button to check your answer.

- A) Annulment
- B) Annihilation
- C) Appropriate
- D) Inurement

The correct answer is D. Paying dividends or unreasonable compensation to insiders and transferring property to insiders for less than fair market value are considered inurement.

### Slide 35 Knowledge Check

**Script: Leagle** – Let's try one more. Which activity is a public charity allowed to do that won't jeopardize its tax-exempt status?

- A) Contribute to a political candidate
- B) Pay its executives excessive amounts of compensation
- C) Make public statements in favor of a particular candidate
- D) Paint its office walls orange with green polka dots

The correct answer is D. Other than painting the office, each activity on the list will jeopardize an organization's tax-exempt status.

### **Slide 36 Progress Check**

**Leagle** – Nice job! You've learned about jeopardizing the tax-exempt status of an organization.

### **Slide 37 Resources**

**Leagle** – As we near the end of this course, I know I've shared a lot of exempt organization resources with you. I've put them together here, so feel free to review them.

IRS Lifecycle page - <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Life-Cycle-of-a-Public-Charity>

Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities  
<http://www.irs.gov/pub/irs-pdf/p4221pc.pdf>

Publication 557, Tax-Exempt Status for Your Organization  
[http://www.irs.gov/file\\_source/pub/irs-pdf/p557.pdf](http://www.irs.gov/file_source/pub/irs-pdf/p557.pdf)

Which Form 990 am I required to file annually?  
<https://www.irs.gov/charities-non-profits/form-990-series-which-forms-do-exempt-organizations-file-filing-phase-in>

Form 990 Overview course  
<https://www.stayexempt.irs.gov/home/existing-organizations/form-990-overview>

### **Slide 38 Conclusion**

**Leagle** – On behalf of everyone in the IRS Exempt Organizations division, thank you for taking the Maintaining 501(c)(3) Tax-Exempt Status course.

Before you leave, please take a couple of minutes to complete this course's evaluation. It doesn't ask for any personal information. The information you provide will ensure that this and other courses at StayExempt provide a valuable learning experience for future participants. Also, if you have other feedback for the Exempt Organizations team, feel free to [send us an email](#).

After you complete the survey, print out your own [Certificate of Completion](#) as recognition for attending this course.