



Internal Revenue Service

**Tax Exempt and
Government Entities**

Exempt Organizations

Applying for 501(c)(3) Tax-Exempt Status

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Who is eligible for 501(c)(3) status?

**What responsibilities accompany
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tax-exempt status?**



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Federal tax law provides tax benefits to nonprofit organizations recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (IRC). It requires that most organizations apply to the Internal Revenue Service (IRS) for that status.

This IRS Publication 4220 presents general guidelines for organizations that seek tax-exempt status from federal income tax under section 501(c)(3) of the IRC. Content includes references to the statute, Treasury regulations, other IRS publications that explain the requirements for tax-exempt status, and IRS forms with instructions. Publication 4220 is neither comprehensive nor intended to address every situation. As an alternative to applying for exemption, an organization may obtain many of the benefits of 501(c)(3) status by affiliating with an existing charity that acts as its agent. It is important to note that the existing charity must be given full control and authority over the program.

To learn more about the rules and procedures that pertain to organizations applying for exemption from federal income tax under section 501(c)(3) of the IRC, see Publication 557, Tax-Exempt Status for Your Organization. For assistance on 501(c)(3) status, you may also want to consult a tax adviser.

Why apply for 501(c)(3) status?

The benefits of having 501(c)(3) status include exemption from federal income tax and eligibility to receive tax-deductible charitable contributions. To qualify for these benefits, most organizations must file an application with, and be recognized by, the IRS as described in this publication. Another benefit is that some organizations may be exempt from certain employment taxes.

Individual and corporate donors are more likely to support organizations with 501(c)(3) status because their donations can be tax deductible. Recognition of exemption under section 501(c)(3) of the IRC assures foundations and other grant-making institutions that they are issuing grants or sponsorships to permitted beneficiaries.

An IRS determination of 501(c)(3) status is recognized and accepted for other purposes. For example: state officials may grant exemption from state income, sales, and property taxes; and the U.S. Postal Service offers reduced postal rates to certain organizations.

Who is eligible for 501(c)(3) status?

There are three key components for an organization to be exempt from federal income tax under section 501(c)(3) of the IRC. A not-for-profit (i.e., nonprofit) organization must be *organized* and *operated* exclusively for one or more *exempt purposes*.

organized—A 501(c)(3) organization must be *organized* as a corporation, trust, or unincorporated association. An organization's organizing documents

(articles of incorporation, trust documents, articles of association) must: limit its purposes to those described in section 501(c)(3) of the IRC; not expressly permit activities that do not further its exempt purpose(s), i.e., unrelated activities; and permanently dedicate its assets to exempt purposes.

operated—Because a substantial portion of an organization’s activities must further its exempt purpose(s), certain other activities are prohibited or restricted including, but not limited to, the following activities. A 501(c)(3) organization:

- must absolutely refrain from participating in the political campaigns of candidates for local, state, or federal office
- must restrict its lobbying activities to an insubstantial part of its total activities
- must ensure that its earnings do not inure to the benefit of any private shareholder or individual
- must not operate for the benefit of private interests such as those of its founder, the founder’s family, its shareholders or persons controlled by such interests
- must not operate for the primary purpose of conducting a trade or business that is not related to its exempt purpose, such as a school’s operation of a factory
- may not have purposes or activities that are illegal or violate fundamental public policy

exempt purpose—To be tax exempt, an organization must have one or more *exempt purposes*, stated in its organizing document. Section 501(c)(3) of the IRC lists the following exempt purposes: charitable, educational, religious, scientific, literary, fostering national or international sports competition, preventing cruelty to children or animals, and testing for public safety.



501(c)(3) Organizations

The most common types of 501(c)(3) organizations are charitable, educational, and religious.

CHARITABLE

Charitable organizations conduct activities that promote:

- relief of the poor, the distressed, or the underprivileged
- advancement of religion
- advancement of education or science
- erection or maintenance of public buildings, monuments, or works
- lessening the burdens of government
- lessening neighborhood tensions
- eliminating prejudice and discrimination
- defending human and civil rights secured by law
- combating community deterioration and juvenile delinquency

EDUCATIONAL

Educational organizations include:

- schools such as a primary or secondary school, a college, or a professional or trade school
- organizations that conduct public discussion groups, forums, panels, lectures, or similar programs
- organizations that present a course of instruction by means of correspondence or through the use of television or radio
- museums, zoos, planetariums, symphony orchestras, or similar organizations
- nonprofit day-care centers
- youth sports organizations

RELIGIOUS

The term *church* includes synagogues, temples, mosques, and similar types of organizations. Although the IRC excludes these organizations from the requirement to file an application for exemption, many churches voluntarily file applications for exemption. Such recognition by the IRS assures church leaders, members, and contributors that the church is tax exempt under section 501(c)(3) of the IRC and qualifies for related tax benefits. Other religious organizations that do not carry out the functions of a church, such as mission organizations, speakers' organizations, nondenominational ministries, ecumenical organizations, or faith-based social agencies, may qualify for exemption. These organizations must apply for exemption from the IRS. See Publication 1828, *Tax Guide for Churches and Religious Organizations*, for more details.



Public Charities and Private Foundations

Every organization that qualifies for tax-exempt status under section 501(c)(3) of the IRC is further classified as either a *public charity* or a *private foundation*. Under section 508 of the IRC, every organization is automatically classified as a private foundation unless it meets one of the exceptions listed in section 509(a).

For some organizations, the primary distinction between a classification as a public charity or a private foundation is the organization's source of financial support. Generally, a public charity has a broad base of support while a private foundation has very limited sources of support. This classification is important because different tax rules apply to the operations of each. Deductibility of contributions to a private foundation is more limited than deductibility of contributions to a public charity. See Publication 526, *Charitable Contributions*, for more information on deductibility of contributions. In addition, private foundations are subject to excise taxes that are not imposed on public charities. For more information about the special tax rules that apply to private foundations, see Publication 4221-PF, *Compliance Guide for 501(c)(3) Private Foundations*; and the Life Cycle of a Private Foundation website on www.irs.gov/eo.

Organizations statutorily classified as public charities under section 509(a) of the IRC are:

- churches
- schools
- organizations that provide medical or hospital care (including the provision of medical education and in certain cases, medical research)

- organizations that receive a *substantial* part of their support in the form of contributions from publicly supported organizations, governmental units, and/or from the general public
- organizations that normally receive not more than one-third of their support from gross investment income and more than one-third of their support from contributions, membership fees, and gross receipts from activities related to their exempt functions
- organizations that support other public charities

If the organization requests public charity classification based on receiving support from the public, it must continue to seek significant and diversified public support in later years. A new organization that cannot show that it has received enough public support may request an *advance ruling* of its status. At the end of its advance ruling period, usually five years, it must file Form 8734, Support Schedule for Advance Ruling Period, showing its sources of support. If the Form 8734 indicates sufficient public support, the organization receives a definitive ruling of its public charity status. If the organization does not meet the public support requirements in the future, it could be reclassified as a private foundation. Unless the organization is committed to raising funds from the public, it may be more appropriate to consider alternate statutorily-based public charity classifications. See Publication 557, *Tax-Exempt Status for Your Organization*, for assistance with determining how your organization would be classified.

What responsibilities accompany 501(c)(3) status?

While conferring benefits on 501(c)(3) organizations, federal tax law also imposes responsibilities on organizations receiving that status.

Recordkeeping

Section 501(c)(3) organizations are required to keep books and records detailing all activities, both financial and nonfinancial. Financial information, particularly information on its sources of support (contributions, grants, sponsorships, and other sources of revenue) is crucial to determining an organization's private foundation status. See Publication 4221-PC and 4221-PF, Publication 557, and the instructions to Forms 990, 990-EZ, and 990-PF for more information.

Filing Requirements

Annual Information Returns – Organizations recognized as tax exempt under section 501(c)(3) of the IRC may be required to file an annual information return: Form 990, Form 990-EZ, or Form 990-PF along with Schedules A and B. Certain categories of organizations are excepted from filing Form 990 or Form 990-EZ including churches and very small organizations. See the instructions with each of these forms for more information.

Annual Electronic Notice – Small organizations are not required to file Form 990 if their gross receipts are normally \$25,000 or less. Beginning in 2008, however, these organizations must submit an annual electronic notice using Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt*



Organizations not Required To File Form 990 or 990-EZ, also known as the e-Postcard. The e-Postcard can only be filed electronically; there is no paper version. For more information about the e-Postcard, go to www.irs.gov.

Unrelated Business Income Tax – In addition to filing Form 990, 990-EZ, or 990-PF, an exempt organization must file Form 990-T if it has \$1,000 or more of gross receipts from an unrelated trade or business during the year. The organization must make quarterly payments of estimated tax on unrelated business income if it expects its tax for the year to be \$500 or more. The organization may use Form 990-W to help calculate the amount of estimated payments required. In general, the tax is imposed on income from a regularly carried-on trade or business that does not further the organization's exempt purposes (other than by providing funds). See Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, and the Form 990-T instructions for more information.

Disclosure Requirements

Public Inspection of Exemption Applications and Returns – Section 501(c)(3) organizations must make their application (Form 1023) and the three most recent annual returns (Form 990 or Form 990-EZ) available to the public, upon request and without charge (except for a reasonable charge for copying). The IRS also makes these documents available for public inspection and copying. Private foundation returns (Form 990-PF) filed on or after March 13, 2000, are subject to the same disclosure rules. These documents must be made available at the organization's principal office during regular business hours. Upon request, an organization



must furnish copies of the application and the three most recent annual returns. The requests may be made in person or in writing. See Publication 557 for more information.

For tax years beginning after August 17, 2006, section 501(c)(3) organizations that file unrelated business income tax returns (Forms 990-T) must make them available for public inspection.

Charitable Contributions – Substantiation and Disclosure – Organizations that are tax exempt under section 501(c)(3) of the IRC must meet certain requirements for documenting charitable contributions. The federal tax law imposes two general disclosure rules: 1) a donor must obtain a *written acknowledgment* from a charity for any single contribution of \$250 or more before the donor can claim a charitable contribution on his/her federal income tax return; 2) a charitable organization must provide a *written disclosure* to a donor who makes a payment in excess of \$75 partly as a contribution and partly for goods and services provided by the organization. See Publication 1771, *Charitable Contributions – Substantiation and Disclosure Requirements*, for more information.

Recordkeeping Requirements

A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift made on or after January 1, 2007, unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

How do you apply for 501(c)(3) status?

Organizations that want to apply for 501(c)(3) status should be aware of the forms required, the user fee, the filing deadline, and the processing procedures.

Forms to File

FORM SS-4

An employer identification number (EIN) is your account number with the IRS and is required regardless of whether the organization has employees. Include the organization's EIN on all correspondence to the IRS. Apply for an EIN by completing Form SS-4, *Application for Employer Identification Number*, by calling toll-free (866) 816-2065, or by submitting an online version of the form via www.irs.gov. Form SS-4 is available at Social Security Administration offices, by request through the IRS at (800) 829-3676, and by downloading the form from the IRS Web site at www.irs.gov. For more information about EINs, see Publication 1635, *Understanding Your EIN*.

FORM 1023

Complete Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, and mail to the address indicated in the instructions. The required user fee must accompany Form 1023. The IRS will not process an application until the user fee is paid.

FORMS 2848 and 8821

Attach Form 2848, *Power of Attorney and Declaration of Representative*, if someone other than your principal officer or director will represent you on matters about the application. Attach Form 8821, *Tax Information Authorization*, if you want the IRS to be able to provide information about your application to an employee other than a principal officer or director.

When to File

Most organizations must file Form 1023 by the end of the 15th month after they were created, with a 12-month extension available. An organization that is not a private foundation is not required to file Form 1023 unless its annual gross receipts are normally more than \$5,000. An organization must file Form 1023 within 90 days of the end of the year in which it exceeds this threshold.

Example 1: An organization that was created on January 1, 2006, and exceeds the gross receipts threshold, must file Form 1023 by April 30, 2009.

Example 2: An organization that was created on January 1, 2003, but did not exceed the gross receipts threshold until September 30, 2007, must file Form 1023 by March 31, 2008.

An organization that files its application before the deadline will be recognized as tax exempt under section 501(c)(3) of the IRC from the date of its creation. An organization that files an application after the deadline may be recognized as tax exempt from the date of the application; it may also request exemption retroactive as of the date of creation. See the instructions to Form 1023 for more information.

Determination Letter

The IRS tax specialist reviewing an application may request additional information in writing. If all information received establishes that an organization meets the requirements for exemption, the IRS will issue a determination letter recognizing the organization's exempt status and providing its public charity classification. This is an important document that should be kept in the organization's permanent records.



While Your Application Is Pending

While an organization's Form 1023 is waiting for approval from the IRS, the organization may operate as a tax-exempt organization.

If an annual exempt organization return is due, the organization must file it, indicating that its application is pending. These returns are subject to public disclosure. If the organization has unrelated business income of more than \$1,000, it must also file a Form 990-T. See Publication 4221-PC or 4221-PF for more information.

Although donors have no assurance that contributions are tax-deductible for federal income tax purposes until the application is approved, contributions made while an application is pending would qualify if the application is approved. However, if the application is disallowed, contributions would not qualify. Moreover, the organization would be liable for filing federal income tax returns unless its income is otherwise excluded from federal taxation.

The EO website (www.irs.gov/eo) provides information about how to find out about the status of an application for tax-exempt status.

How to get IRS assistance and information

The IRS offers help through assistors and with reading material that is accessible either online, via mail, by telephone, and at IRS walk-in offices in many areas across the country. IRS forms and publications can be downloaded from the Internet and ordered by telephone.

Specialized Assistance for Tax-Exempt Organizations

Get help with questions about applying for tax-exempt status, annual filing requirements, and information about exempt organizations through the IRS Exempt Organizations (EO).

EO Web site

www.irs.gov/eo

Highlights:

- *The Life Cycle of a Public Charity and Life Cycle of a Private Foundation* – describe the compliance obligations of charities.
- Subscribe to the *EO Update*, an electronic newsletter with information for tax-exempt organizations and tax practitioners who represent them.

Web based training modules

www.stayexempt.org

- Tax Exempt Status
- Unrelated Business income
- Employment Issues
- Form 990
- Required Disclosures

EO customer service (877) 829-5500

EO Determinations Office mailing address

Internal Revenue Service
TE/GE, EO Determinations Office
P.O. Box 2508
Cincinnati, OH 45201

Tax Publications for Exempt Organizations

GET PUBLICATIONS VIA THE INTERNET
OR BY CALLING THE IRS AT (800) 829-3676:

- Pub 15, Circular E, Employer's Tax Guide**
- Pub 15-A, Employer's Supplemental Tax Guide**
- Pub 463, Travel, Entertainment, Gift, and Car Expenses**
- Pub 517, Social Security and Other Information for Members of the Clergy and Religious Workers**
- Pub 526, Charitable Contributions**
- Pub 538, Accounting Periods and Methods**
- Pub 557, Tax-Exempt Status for Your Organization**
- Pub 583, Starting a Business and Keeping Records**
- Pub 598, Tax on Unrelated Business Income of Exempt Organizations**
- Pub 1771, Charitable Contributions – Substantiation and Disclosure Requirements**
- Pub 1828, Tax Guide for Churches and Religious Organizations**
- Pub 3079, Gaming Publication for Tax-Exempt Organizations**
- Pub 3833, Disaster Relief, Providing Assistance Through Charitable Organizations**
- Pub.4202, A Charity's Guide to Vehicle Donations**
- Pub.4203, A Donor's Guide to Vehicle Donations**
- Pub 4220, Applying for 501(c)(3) Tax-Exempt Status**
- Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities**
- Pub 4221-PF, Compliance Guide for 501(c)(3) Private Foundations**

Forms for Exempt Organizations

GET FORMS VIA THE INTERNET OR BY
CALLING THE IRS AT (800) 829-3676:

- Form SS-4, Application for Employer Identification Number**
- Form 941, Employer's Quarterly Federal Tax Return**
- Form 990, Return of Organization Exempt From Income Tax**

Form 990-EZ, Short Form Return of Organization Exempt From Income Tax

Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation

Schedule A, of Form 990 or 990-EZ, Supplementary Information – Organization Exempt Under Section 501(c)(3)

Schedule B, of Form 990, 990-EZ, or 990-PF, Schedule of Contributors

Form 990-N, Electronic Notice (e-Postcard) For Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ

Form 990-T, Exempt Organization Business Income Tax Return

Form 990-W, Estimated Tax on Unrelated Business Taxable Income for Exempt Organizations

Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

Form 1041, U.S. Income Tax Return for Estates and Trusts

Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code

Form 5578, Annual Certification of Racial Non-Discrimination for a Private School Exempt from Federal Income Tax

Form 5768, Election/Revocation of Election by an Eligible Section 501(c)(3) Organization To Make Expenditures to Influence Legislation

Form 8282, Donee Information Return

Form 8283, Noncash Charitable Contributions

Form 8734, Support Schedule for Advance Ruling Period

Form 8868, Extension of Time To File an Exempt Organization Return





Department of the Treasury
Internal Revenue Service

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