

Tax Exempt Organizations

Is your organization “Tax-Exempt”? How do you know?

Does your organization file a Federal Tax Return (or wonder if it should)?

Does your organization tell its donors that their contributions are tax deductible?

For an organization to be exempt from federal income tax under section 501(a) of the Internal Revenue Code (Code), they need to apply to obtain an appropriate ruling (or determination letter) from the IRS. Organizations that are exempt under section 501(a) of the Code include those organizations described in section 501(c).

If your organization is a subordinate one controlled by a central organization (for example Boy Scouts or a fraternal organization), you should check with the central organization to see if it has been issued a group exemption letter that covers your organization. If it has, you do not have to file a separate application unless your organization no longer wants to be included in the group exemption letter. If the group exemption letter does not cover your organization, ask your central organization about being included in the next annual group ruling update that it submits to the IRS. This will save your organization much time and trouble.

The most recognizable tax-exempt section of the Code is 501(c)(3), which identifies organizations such as “Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals”. Charitable contributions made to these type organizations can be fully tax deductible if the taxpayer itemizes their deductions.

A lesser-known section of the Code is 501(c)(19) which identifies “Post or Organization of Past or Present Members of the Armed Forces”. Although these organizations are themselves fully tax-exempt, normally charitable contributions to these organizations are only tax deductible for the donor if 90% or more of the organization’s membership are war veterans.

To apply for an Employer Identification Number (EIN), submit IRS Form SS-4.

To apply for tax-exempt status as a 501(c)(3) organization, submit IRS Form 1023.

To apply for tax-exempt status as a non-501(c)(3) organization, submit IRS Form 1024.

With either the IRS Form 1023 or 1024, you will need to submit IRS Form 8718, User Fee for Exempt Organization Determination Letter Request. If your organization’s annual gross receipts are \$10,000 or less, the fee is \$150. User fee for organizations with annual gross receipts greater than \$10,000 is \$500.

All these forms, as well as IRS PUB 557, Tax-Exempt Status of Your Organization, can be downloaded from www.irs.gov.