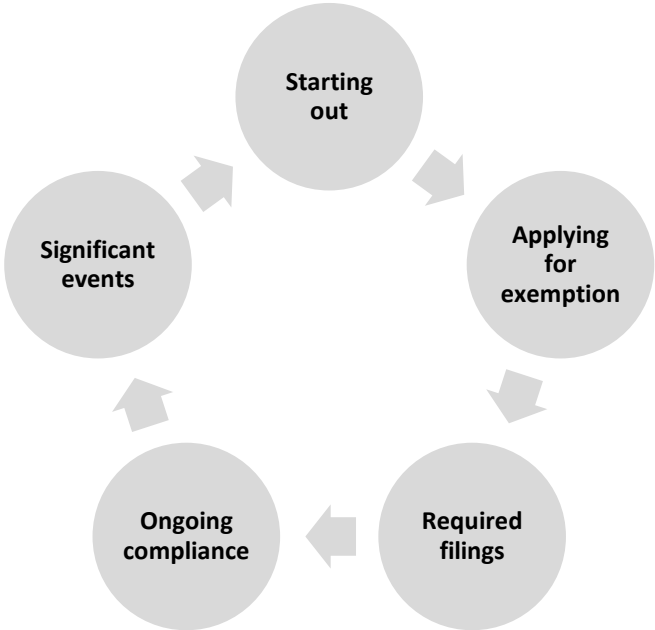


Public charity status organization

LIFE CYCLE OF PUBLIC CHARITY STATUS ORGANIZATION

There are five steps to the lifecycle of a tax-exempt public charity status organization. They include



Tabular representation of Life Cycle of a Public Charity Organization is shown below.

Summary	Detailed steps
Starting out:	<ul style="list-style-type: none"> • Create your organization • Organize documents • Create By laws • Acquire an Employer Identification Number <ul style="list-style-type: none"> ▪ Application form ▪ Apply for EIN on line • Charitable solicitation <ul style="list-style-type: none"> ▪ Initial state registration ▪ Periodic state reporting

Summary	Detailed steps
	<ul style="list-style-type: none"> ▪ State charity offices • Identify the appropriate federal tax classification
Applying for exemption	<ul style="list-style-type: none"> • Apply to the IRS for tax-exempt status <ul style="list-style-type: none"> ▪ Form 1023 ▪ Group exemption ▪ User fee ▪ Power of Attorney ▪ Disclosure of applications • IRS Processing <ul style="list-style-type: none"> ▪ Tax law compliance before exempt status is recognized ▪ Rulings and determination letters • Help from the IRS <ul style="list-style-type: none"> ▪ Application process step by step ▪ Customer account services ▪ Publication 4220 applying for 501(c)(3) tax exemption Status ▪ Publication 557, tax exempt status for the organization
Required Filings	<ul style="list-style-type: none"> • Annual exempt organization returns <ul style="list-style-type: none"> ▪ Requirements for filing <ul style="list-style-type: none"> ◦ e file for exempted organizations ◦ e postcard for small exempt organizations • Unrelated business income tax filings <ul style="list-style-type: none"> ▪ Requirements for filing <ul style="list-style-type: none"> ◦ Form 990 T ◦ Form 990 T instructions ◦ Estimated tax <ul style="list-style-type: none"> – Form 990-W ▪ Exceptions and exclusions ▪ Publication 598, tax on unrelated business income <ul style="list-style-type: none"> ▪ for exempted organizations • Help from the IRS <ul style="list-style-type: none"> ▪ Customer account services ▪ Publication 4221-PC applying for 501(c)(3) tax exemption status ▪ Publication 557, tax exempt status for the organization
Ongoing Compliance	<ul style="list-style-type: none"> • Jeopardizing exemption <ul style="list-style-type: none"> ▪ Inurement/private benefit ▪ Intermediate sanctions ▪ Lobbying and political activity

Summary	Detailed steps
	<ul style="list-style-type: none"> ▪ Not filing requirement annual return or notice • Employment taxes <ul style="list-style-type: none"> ▪ Requirement to pay ▪ Exceptions and exclusions ▪ Worker classification ▪ Employment tax forms ▪ Employment tax publications • Substantiation and disclosure <ul style="list-style-type: none"> ▪ Charitable contributions <ul style="list-style-type: none"> ◦ Charitable contributions (publication 1771) ◦ Written acknowledgements ◦ Quid Pro Quo contributions ◦ Charity auctions ▪ Non cash contribution <ul style="list-style-type: none"> ◦ Donor (Form 8283) ◦ Charity (Form 8282) ◦ Publication 561 (<i>Determining the value of donated Property</i>) • Public disclosure requirements • Retirement plan compliance • Help from the IRS <ul style="list-style-type: none"> ▪ Customer account services ▪ Compliance code (Publication 4221 – PC) ▪ Tax exempt status of the organization (<i>Publication 557</i>)
Significant events	<ul style="list-style-type: none"> • Reporting changes to IRS <ul style="list-style-type: none"> ▪ Termination of exempt organizations • Private letter rulings and determination letters • Audits of exempt organizations <ul style="list-style-type: none"> ▪ Potential examination consequences ▪ Examination procedures ▪ Power of Attorney • Termination of an exempt organizations • Help from the IRS <ul style="list-style-type: none"> ▪ Customer Account services ▪ Compliance code (Publication 4221 – PC) ▪ Tax exempt status of the organization (<i>Publication 557</i>)

TAX EXEMPTED STATUS COMPANIES

We need to understand what it takes to become a tax-exempt organization and maintain the status of the organization. First, we should know that the term 501(c)

(3). This refers to section 501(c)(3) of the Internal Revenue Code – where the rules and regulations governing exempt organizations are found. Tax-exempt organizations are commonly referred to as 501(c)(3)s. 501(c)(3) includes both public charities and private foundations. We’ll discuss the differences later.

STARTING OUT

First of all, one needs to create an organization under the relevant state’s law. The state will provide classification and have a set of rules, within which the proposed or new organization will fit in. When the new organization is being created, one needs to create organizing documents based on the requirements of the state. These documents are needed to apply for tax exemption.

If one likes to apply for tax exemption, which is a federal level status, one needs to acquire an employer identification number, or EIN.

Even if an organization does not have employees, still one needs an EIN. This EIN is similar to one’s personal social security number, only it’s for one’s business. This number identifies one to the IRS.

Then one needs to determine what type of tax-exempt organization one needs to have. This information is needed when you apply for tax-exempt status.

The steps for applying for Employer Identification Number (EIN) are as under:

Steps	Narrative
Step 1: Determine Your Eligibility...	<p>One may apply for an EIN online if one’s principal business is located in the United States or U.S. Territories.</p> <p>The person applying online must have a valid Taxpayer Identification Number (SSN, ITIN and EIN).</p> <p>One is limited to one EIN per responsible party per day.</p>
Step 2: Understand the Online Application...	<p>One must complete this application in one session, as you will not be able to save and return at a later time.</p> <p>The session will expire after 15 minutes of inactivity, and one needs to start all over again.</p>
Step 3: Submit Application...	<p>After all validations are done you will get your EIN immediately upon completion. You can then download, save, and print your EIN confirmation notice.</p>

APPLYING FOR EXEMPTION

At this stage the steps are as under:

- Apply to the IRS for Tax-Exempt Status
- Form 1023

REQUIRED FILINGS

Once the IRS has granted the organization tax-exempt status, it's important that one meets the mandatory annual filing requirements.

The organization needs to file annual exempt-organization returns, and one could be required to file unrelated business income tax filings, and other returns and reports with a view to Stay Exempt. Once the organization achieves tax-exempt status, one needs to take care of the procedures related to being Stay Exempt, like Required Disclosures and Unrelated Business Income.

ONGOING COMPLIANCE

It's always helpful if one understands how an organization can avoid jeopardizing its tax-exempt status. To do that, one needs to understand employment taxes, public disclosure requirements, and other ongoing compliance issues.

There's the Maintaining Tax-Exempt Status course, one on Required Disclosures, which tells you what information the public is entitled to see, and Employment issues courses. You should go through those when you've applied for tax-exempt status.

SIGNIFICANT EVENTS

These 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

BENEFITS AND RESPONSIBILITIES

Benefits and responsibilities of a public charity status company are highlighted as under:

BENEFITS

- Exemption from federal income tax
- Tax-deductible contributions
- Reduced postal rates

In addition to being exempt from federal income tax, contributions to the organization become tax deductible, one may be exempt from paying state income, sales and employment taxes, one may have access to reduced postal rates, one is exempt from paying federal unemployment tax, and one can receive tax-exempt financing.

RESPONSIBILITIES

These responsibilities include recordkeeping, certain annual filing requirements, and disclosure requirements. A brief overview of each of these responsibilities is given as under.

RECORD KEEPING

Keep detailed recordkeeping

- Financial
- Non-financial

The details of the books and records will be dealt with in a separate chapter.

ANNUAL FILINGS

Annual Filings include the following reports:

- Form 990
- Form 990-EZ
- Form 990-N (Post Card)

The IRS doesn't need to see all of your records on a regular basis. But the records you keep will allow you to have everything you may need to submit your required annual filings. Most public charities recognized as tax-exempt under section 501(c)(3) of the Code are required to file an annual information return: either the Form 990 or Form 990-EZ.

Certain categories of organizations are exempted from filing Form 990 or Form 990-EZ - including churches and very small organizations. However, most small organizations that aren't required to file Form 990 or 990-EZ must file an annual **electronic** notice, the Form 990-N, also known as the e-Postcard.

PUBLIC DISCLOSURES

There are specific records that need to be made public upon request. Section 501(c)(3) organizations must make their exemption application and the three most recent annual information returns (Form 990s) available to the public, upon request and without charge (except for a reasonable charge for copying). If the organization has \$1,000 or more in gross income from an **unrelated** business, it must file Form 990-T, *Exempt Organization Business Income Tax Return*, and that must be made available as well.

PREPARING TO APPLY FOR TAX-EXEMPT STATUS

Apply for an EIN:

- Go to the IRS website or call a toll-free number (800) 829-4933 and get an EIN immediately.
- Fax Form SS-4 to the IRS and get an EIN within 4 business days
- Complete Form SS-4, Application for Employer Identification Number, and mail it to the IRS
- Go to website www.irs.gov/businesses for more information.

ORGANIZING DOCUMENTS

The steps are as under:

An organization can't qualify for exempt status without an organizing document. To qualify for exemption under Section 501(c) (3), the organizing document must contain three provisions.

First, the organizing document must limit the organization's purposes to one or more of the exempt purposes listed in Section 501(c)(3) of the Code.

These purposes include:

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

Second, the organizing document must not give the organization the ability or permission to engage in activities that don't advance those exempt purposes.

And third, the assets of the organization, such as the money and property of the organization, must be permanently dedicated to an exempt purpose described under Section 501(c)(3).

CREATION OF BY LAWS

By laws are the organization's internal operating rules.

Federal tax law doesn't require specific language in the by-laws of most organizations. However, state law may require you to have by-laws, so it is a good idea to contact your state to find out the specific requirements.

TYPES OF TAX EXEMPT ORGANIZATIONS

A 501(c) (3) organization (also known as a public charity) is one that is organized and operated exclusively for purposes that are:

- Religious
- Charitable
- Scientific
- Testing for public safety
- Library or educational
- Designed to foster national and international amateur sports competition
- For the prevention of cruelty to children and animals

There are many kinds of organizations that fall under these categories. For example, organizations that provide relief of the poor, distressed or underprivileged; those that lesson neighbourhood tensions; or those that defend human and civil rights usually qualify as charitable organizations. Educational organizations can be schools, museums, symphony orchestras, training for the unemployed, dance classes and zoos.

WHICH ORGANIZATIONS WILL BE ELIGIBLE FOR 501(C)3 STATUS

Some of the specimen organizations with the classification is given in the following table:

Organization	Classification
Human Liberties Association	Yes this would fall under 501(c)(3), as this organization would primarily be concerned with advocating human rights.
Town Country Club	This may fall under 501(c)(7)
One Name Church	Yes – This is a religious organization and would qualify as a 501(c)(3).
County Citizens Group	No. This is a civic league 501(c)(4).
Galaxy Planetarium	Yes. Educational: fostering knowledge of the physical universe.
Veterans’ Association	No, a veterans association is usually a 501(c)(19).
State Chamber of Commerce	No, an organization that advances the interests of business would qualify as a 501(c) (6) business league.

Organization	Classification
Animal Rescue Organization	Yes, the prevention of cruelty to animals is an exempt purpose under 501(c)(3).
Orchid Society	No, in most cases, this would be a horticultural organization, which would qualify under 501(c)(5).
Biochemistry Researchers	Yes, this organization is dedicated to advancing the subject of biochemistry, so it qualifies as scientific.
Healthcare researchers	Yes, this organization is dedicated to advancing the subject of healthcare, so it qualifies as scientific.
City Bar Association	No, this is a professional league, so it would qualify under 501(c)(6).

TEST FOR CHARITIES

There are two part tests of charities. These are:

- Organizational tests
- Operational tests

All types of tax-exempt organizations must meet these two tests.

ORGANIZATIONAL TESTS

This test is used to determine if the organization is properly organized. To pass this test the organization must:

- Limit its purposes to one or more of the exempt purposes listed in Code section 501(c)(3)
- Not permit the organization to engage in a non-exempt activity and
- Assets of the organization must be permanently dedicated to an exempt purpose.

OPERATIONAL TESTS

The operational test covers how the organization is actually operated. To pass the operational test, the organization must show that its principal activities will be to further its exempt purposes. On the other hand, the organization has to limit the participation in certain kinds of activities and absolutely refrain from others.

Though this test is conducted when one is first applying for tax-exempt status, if the balance of the activities gets out of line after the status is obtained, or

- the organization engages in prohibited activities,
- then there is a possibility that one may lose tax-exempt status and be subject to both taxes and penalties.

DIFFERENCE BETWEEN PUBLIC CHARITY VERSUS PRIVATE FOUNDATION

When an entity qualifies as a tax-exempt organization, the IRS presumes it's a private foundation unless it can show that it's a public charity.

The main differences are as under:

- Firstly it is important where the money comes from. Generally, a public charity has a broad base of support while a private foundation has very limited sources of support.
- There are also different tax rules – so, for example, public foundations are subject to excise taxes that aren't imposed on public charities.

Some organizations automatically qualify as public charities based on the Code, so they're called Statutory Public Charities. As explained earlier, some examples are churches, schools, and organizations providing medical or hospital care (including medical education and research). These organizations still have to pass the Operational and Organizational tests.

Or, if the organization receives significant public support or it provides support to other public charities, one may also qualify that way. Otherwise, one has to demonstrate that it is a public charity by other means.