Webinar for New Tax-Exempt Organizations

"Starting Off Right: What New 501(c)(3) Organizations Need to Know"

November 18, 2010

IRS

Today's Presenters

- **Holly Paz**

  Supervisory Tax Law Specialist

- **Michael Repass**

  Tax Law Specialist

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Welcome!

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Your “Determination” Letter Included...

Compliance Guide for 501(c)(3) Public Charities

(Publication 4221-PC)

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Stump the Audience

Choose “Yes” or “No” and then press “Submit.”

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Jeopardizing Your Exemption

Five ways...

- **Private Benefit / Inurement**
- **Lobbying / Legislation**
- **Political Campaign Intervention**
- **Unrelated Business Income**
- **Filing Requirements**

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Two Tests to Meet

- Organizational
- Operational

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Operational Test

- Organization operates *exclusively* for an exempt purpose

- Activities engaged in must *further* exempt purpose (non-exempt activities must be insubstantial)

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Jeopardizing Your Exemption

Five ways...

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Jeopardizing Activity # 1

- Private Benefit and Inurement
  - **Organization cannot serve substantial private interests**
  - ***Inurement* – Organization cannot permit assets or income to accrue to "insiders"**

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Jeopardizing Activity # 1

- Insiders = “Disqualified Persons”
  - **Officers, Directors, Key Employees, Founders, Certain family members, Entities more than 35% owned**
- Examples of Inurement
  - **Payment of dividends, Unreasonable compensation, Transfer of property for less than fair market value**

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Intermediate Sanctions

- Excise Tax
  - **Assessed on person receiving excess benefit**
  - **May be assessed on organization managers**
  - **May be assessed in instead of <u>or</u> in addition to revocation**

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Intermediate Sanctions

- Excise Tax
  - **Applies to “Excess Benefit Transaction”**
  - **Return benefit with interest**
  - **Pay excise tax using Form 4720**
  - **Organization discloses on Form 990**

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Revocation of Exemption

- IRS Considers
  - **Size and scope of exempt activities**
  - **Repeated violations**
  - **Size and scope of benefit**
  - **Safeguards implemented**
  - **Compliance**

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Stump the Audience

- What is inurement?

Choose “Yes” or “No” and then press “Submit.”

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Stump the Audience

- Is this compensation reasonable?

Choose “Yes” or “No” and then press “Submit.”

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Stump the Audience

- In this scenario, compensation arrangement OK

- Organization has established "rebuttable presumption"

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Jeopardizing Activity # 2

- Legislative Activities or “Lobbying”
  - **Lobbying = Attempting to influence legislation**
  - **What is legislation?**
  - **Two tests to measure lobbying**
    - **“No substantial part”**

      or
    - **Expenditures**

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Jeopardizing Activity # 3

- Intervention in political campaigns

Absolute prohibition

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Stump the Audience

- The “My Views” column

Choose “Yes” or “No” and then press “Submit.”

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Stump the Audience

Factors to consider

- Statement identifies one or more candidates for public office?
- Approval/disapproval expressed for one or more candidates' positions/actions?
- Can the President's words be attributed to the university?

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Jeopardizing Activity # 4

Operating for Non-Exempt Purposes

- **What is “Exclusively”?**
- **What is “more than insubstantial”?**

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Jeopardizing Activity # 4

Unrelated Business Income

- **Publication 598**

Tax on Unrelated Business Income of Exempt Organizations

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Jeopardizing Activity # 4

Unrelated Business Income

Key tests:

- **Trade or business**
- **Regularly carried on**
- **Not substantially related**

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Jeopardizing Activity # 4

Common UBI activities

- **Advertising**
- **Sale of merchandise**
- **Services**

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Jeopardizing Activity # 4

UBI exceptions

- **Volunteers**
- **Convenience**
- **Selling donated articles**
- **Bingo**

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Jeopardizing Activity # 5

Filing requirements

- **Form 990**
- **Form 990-EZ**
- **Form 990-N (the “e-postcard”)**

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Resources for New Organizations

www.irs.gov/eo/ ....

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Resources for New Organizations

“Life-Cycle” of an organization ....

Individuals | Businesses | Charities & Non-Profits | Government Entities | Tax Professionals | Retirement

Charitable Orgs | Churches and Religious Orgs | Contributors | Other Non-Profits | Political Orgs | Private Foundations

Charities & Non-Profits Topics

- Life Cycle
- Search for Charities
- A-Z Site Index
- Published Guidance
- EO Newsletter
- Calendar of Events
- Exempt Organizations FAQs
- More Topics . .

IRS Resources

- Compliance & Enforcement
- Contact My Local Office
- e-file

Life Cycle of an Exempt Organization

Organizations that meet the requirements of Internal Revenue Code section 501(a) are ex
charitable contributions made to some section 501(a) organizations by individuals and co

This website provides information about points of intersection between organizations and
information, and links to forms that an organization may need to file with the IRS. The mat
cycle:

1. **Starting Out**: Creating an organization under state law, acquiring an employer ide
federal tax classification.
2. **Applying for Exemption**: Acquiring, completing, and submitting application forms;
help from the IRS during the application process.
3. **Required Filings**: Annual exempt organization returns, unrelated business incom
organization may have to file.
4. **Ongoing Compliance**: How an organization can avoid jeopardizing its tax-exempt
taxes, and other ongoing compliance issues.
5. **Significant Events**: Audits, private letter rulings, and termination procedures.

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Resources for New Organizations

Frequently Asked Questions ....

Individuals | Businesses | Charities & Non-Profits | Government Entities | Tax Professionals | Retiremer

Charitable Orgs | Churches and Religious Orgs | Contributors | Other Non-Profits | Political Orgs | Private Foundations

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IRS Resources

- Compliance & Enforcement
- Contact My Local Office
- e-file
- Forms and Publications
- Newsroom

Frequently Asked Questions about Tax-Exempt Organizations

Frequently Asked Questions About Applying for Tax Exemption
Insights into the tax exempt application process.

FAQs about the Annual Reporting Requirements for Exempt Organizations
Insights into the Service's annual reporting requirements.

e-Postcard: Frequently Asked Questions and Answers
Frequently asked questions about the annual electronic filing requirement for small exer

Form 990 Redesign For Tax Year 2008 (Filed in 2009) Frequently Asked Questions
Frequently asked questions about the draft revised Form 990 (November 2000)

FAQs about the Annual Form Filing Requirements for Section 527 Organizations
Insights into the annual filing requirements for political organizations.

FAQs about Issues of Interest to the General Public about Exempt Organizations
Insights into issues of interest to the general public relating to tax-exempt organizations, i
returns.

FAQs About the Exempt Organization Public Disclosure Requirements
Insights into the rules which require tax-exempt organizations to disclose their exemption

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Resources for New Organizations

EO Update ....

Individuals | Businesses | Charities & Non-Profits | Government Entities | Tax Professionals | Retirement Plans

Charitable Orgs | Churches and Religious Orgs | Contributors | Other Non-Profits | Political Orgs | Private Foundations

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IRS Resources

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- Taxpayer Advocate Service

Current Edition of Exempt Organizations Update

EO Update is a periodic newsletter with information for tax-exempt organizations and tax practitio
who represent them, from Exempt Organizations (Tax-Exempt and Government Entities) at the IR

Issue	Highlights
2010-25	1. Filing Relief in Disaster Areas 2. IRS Seeks Applicants for TE/GE Advisory Committee 3. Small Business Health Care Tax Credit FAQs 4. Revised Publication 557 Now Available 5. Register Now for Phoenix Workshops for Small and Mid-Size 501 (December 7 - 9) 6. Medical Resident FICA Refund Program 7. Form W-2: Reporting of Health Care Coverage Optional for 2011 8. IRS Reminds Tax Preparers to Renew PTIN

Browse the newsletter archive or subscribe to future editions.

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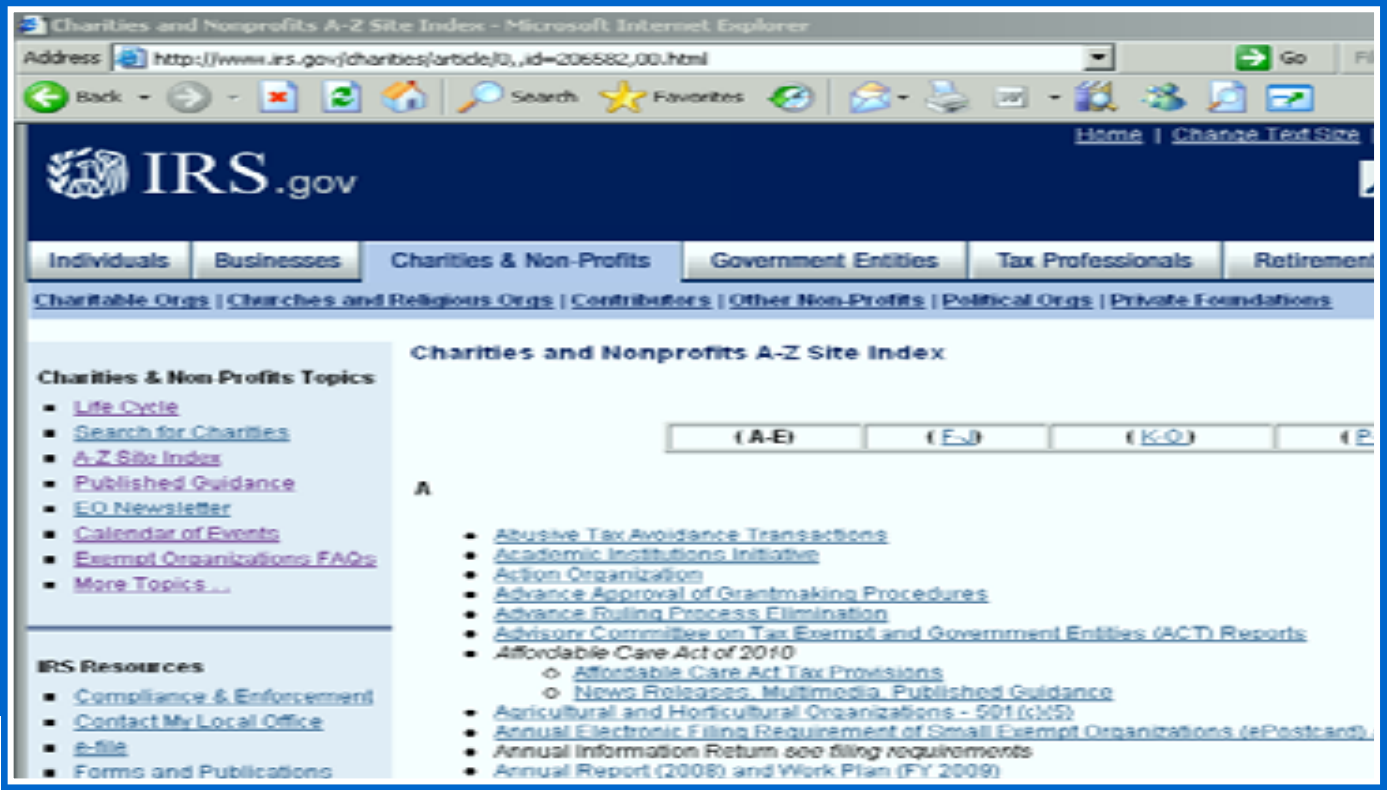
Resources for New Organizations

A – Z site index ....



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Resources for New Organizations

www.StayExempt.irs.gov/ ....

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Resources for New Organizations

Virtual Workshop ....

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Resources for New Organizations

“Coach,” a straight-talking IRS agent

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Resources for New Organizations

Mini-courses ....

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Resources for New Organizations

www.irs.gov

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Resources for New Organizations

- EO website: www.irs.gov/eo/
- Web-based training: www.stayexempt.irs.gov/
- Customer Account Service 877-829-5500
- Forms and publications www.irs.gov/formspubs/

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Starting Off Right!

Thank you.

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