# STARTING OFF RIGHT: What New 501c(3) Organizations Need to Know

Holly:

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Holly:

Welcome to our webinar – “Starting Off Right: What New 501(c)(3) Organizations Need to Know.”

I am Holly Paz, supervisory tax law specialist in the Exempt Organizations section of the Internal Revenue Service.

Mike:

And I am Mike Repass, tax law specialist in Exempt Organizations.

Today we’ll cover the main issues that a new 501(c)(3) organization needs to know in order to meet its federal tax compliance responsibilities.

After that, we’ll point you to other resources so you can find out more on your own as your organization grows.

Before we start, we want to welcome all the new tax exempt organizations.  You’re now part of a 116-year American tradition. Since 1894, Federal tax policy has provided tax exempt status recognizing the role of nonprofits in health, education and the public good.

Holly:

One administrative item:  Tax professionals may receive a Certificate of Completion that can be used to request a continuing professional education credit if the event meets your organization or state CPE requirements.

To get the Certificate, you must have registered for today's program by entering your email address on the registration page and use the same email address to attend so we can verify your participation.

Only those attending today's session, November 18th, will be able to receive a Certificate of Completion. We’ll e-mail them in about a week.

You’ve worked hard to get through the application process and you’ve finally received a letter from the IRS recognizing your organization as tax exempt.  We call this your “determination letter” – be sure to keep it in a safe place.

With your determination letter we also sent you a copy of IRS Publication 4221-PC, called “Compliance Guide For 501(c)(3) Public Charities.”

If you have your copy handy, good – we will be referring to it frequently during the next hour.

If you don't, you might want to find it later or you can order a new one for future reference.

It's not hard to keep your exempt status, but there are a few basic items you need to understand and keep in mind.

Mike:

During this presentation, we'd also like your participation. We're going to pause occasionally and describe a scenario that will help you understand the rules. We'll ask you a question that only requires a "Yes" or "No" answer.  Here's how it works:

Let's say you're the founder of a new organization and you've just gotten your determination letter from the IRS granting you tax-exempt status.

You open the letter and you wonder what the tax compliance rules are and how you can ever manage to understand and comply with them…

How many of you watching today can relate to that concern?  If you've asked yourself one of those questions, vote "yes" by clicking "yes" on the screen now, then press "submit."  If you think it does not, vote "no."

Wow – lots of you have had the same reaction.  Well, that's why we're here today.

Holly:

Your tax exempt status is very valuable to your organization – it's critical to the continued existence of many types of organizations.

So let's focus now on what to avoid – the five ways an exempt organization can jeopardize its exempt status. We're going to start with those so you know where to be especially careful.

Here they are:

* Private Benefit and/or Inurement;

* Lobbying or Legislative Activities;

* Intervention in Political campaigns (sometimes called political activity);

* Unrelated Business Income Activities and

* Failure to comply with reporting obligations

Mike:

Holly, you're right, we do need to cover those five topics, but first, let's review something all of our viewers likely learned during the application process – the basic requirements necessary to be recognized as a 501(c)(3) organization.

To be exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, a non-profit organization must be organized and operated for exclusively exempt purposes.

So, all prospective 501(c)(3) organizations have to pass two tests – the organizational test and the operational test.

The organizational test requires that certain language appear in your articles of incorporation or comparable governing document. The fact that you've received a determination letter from us means you've passed the organizational test.

Some of you may have had to amend your governing document in order to get our Okay.

Now, about the operational test: An organization is regarded as operating exclusively for one or more exempt purposes only if it engages primarily in activities that accomplish those purposes.

Section 501(c)(3) specifies those activities – such as charitable, educational or religious goals.

In its day-to-day operations, a 501(c)(3) organization may engage in small amounts of certain kinds of non-exempt activity, but they must be insubstantial.

We'll talk more later about what kinds of activities are okay, and at what levels.

So - the operational test concerns the organization's activities—the specific work the organization proposes to undertake. You told us about your prospective activities in your applications and again, because you received a determination letter from us, it means you've passed the test.

An important thing about the operational test is that not only do you have to tell us in your application how you will meet it, you have to continue to meet it once your organization is up and running, and as it grows and matures.

Holly:

Let's get back to those "five ways to jeopardize your exempt status" that I mentioned a minute ago. You could also think of them as five ways to fail the operational test. Or as five activities that do not accomplish an exempt purpose. It doesn't matter if you conduct any of these activities on purpose or accidentally – doing so can still jeopardize your exempt status.

Let's talk about them one at a time, starting with Private Benefit and Inurement, which is also covered on pages 2 and 3 of Publication 4221-PC.

Mike:

An organization is not operated exclusively for exempt purposes if its activities benefit the private interests, or private benefit, of any individual or organization more than incidentally. This is known as the prohibition on "private benefit."

If an exempt organization provides more than incidental private benefit, its exempt status can be revoked.

This is true even if the private interests served are unrelated to your organization. An exempt organization must primarily serve public interests, and any furtherance of private interests must be incidental.

The concept of inurement takes this notion further.

Law dictionaries define “inurement” as a benefit or something useful or beneficial.

Section 501(c)(3) of the Internal Revenue Code states that no part of an organization’s net earnings may inure to the benefit of a private shareholder or individual.

This means that the organization may not allow its income or assets to benefit or be used to the advantage of insiders. An insider is a person who has a personal and private interest in the activities of the organization.

In some contexts the term “disqualified person” is used for people with such an interest. Examples of typical insiders or disqualified persons are officers, directors, key employees, and founders of the organization. Certain family members of these categories of individuals can also be deemed “disqualified persons.” So can entities of which those family members own more than 35 percent.

Holly:

Examples of prohibited inurement include: the payment of dividends, the payment of unreasonable compensation to insiders, and the transfer of property to insiders for less than fair market value.

This does not mean that directors, officers, and/or employees cannot be compensated for their services.

They can be paid, but any compensation paid for services rendered must be reasonable.

Other examples of payments that would not be considered prohibited inurement or private benefit include payments that further tax-exempt purposes, and payments made for the fair market value of real or personal property.

Mike:

Conceptually, the prohibition against inurement is absolute – meaning that any amount of inurement is grounds for loss of tax-exempt status. However, the law provides something short of revoking tax-exempt status when that may be too harsh a punishment, or doesn’t punish the persons who made the decision to provide the benefit.

This “intermediate sanction” is an excise tax on the person receiving the benefit AND on the organization managers who participated in the transaction knowing it provided a prohibited benefit. Intermediate sanctions can be imposed in addition to or instead of revocation

Holly:

Let’s spend a couple minutes to explain intermediate sanctions.

When a tax-exempt charity provides a direct or indirect excess economic benefit to an insider both the organization and the insider have engaged in an excess benefit transaction.

One side note here -- A similar regime of penalty taxes applies to private foundations under another part of the Internal Revenue Code, but those rules are beyond the scope of this webinar.

Any insider who receives an excess benefit must return the excess benefit to the organization and pay excise taxes.

The insider should file a Form 4720 to report and pay the excise taxes.  In addition, the organization needs to disclose the transaction on its Form 990.

Organization managers who participate in an excess benefit a transaction, knowing that it is improper, must pay excise taxes as well.

If the excess benefit transaction is not properly disclosed on the Form 990 and/or Form 4720, the IRS may impose the tax, and apply additional penalties.

Mike:

Let's look at an example of an excess benefit.

Say a public charity gives its president a $500,000 compensation package.

And say persons in similar jobs in the same geographical area get $300,000. The president has received a $200,000 excess benefit.

The president must return the $200,000 with interest and must pay a 25 percent excise tax on that amount.  In addition if the president does not make the organization whole by returning the excess benefit, the IRS will assess a second excise tax against the insider equal to 200 percent of the $200,000---or $400,000.

The exempt organization must disclose its participation in the transaction-- and any managers who participated in setting the compensation package, knowing that it provided an excess benefit also have to pay a ten percent excise tax.

Even if the IRS assesses the intermediate sanctions penalties against an insider and an organization's managers, it may still propose revocation of an organization's tax exempt status. Whether the IRS seeks only intermediate sanctions, proposes revocation or both, depends on the facts and circumstances of a particular case.

Holly:

In making that determination, the IRS will consider such factors as:

* The size and scope of the activities the organization regularly conducts to further its exempt purposes. The IRS will compare these activities before and after the excess benefit transactions occurred.

* The size and scope of the excess benefit transactions in relation to the organization's regular and ongoing activities that further its exempt purpose

Other factors could be—

* Whether the organization has been involved in repeated excess benefit transactions;

* Whether the organization has implemented safeguards to prevent this from happening in the future; and

* Whether the organization complied with other applicable laws.

The rules governing these excise taxes are detailed. To learn more about the terms “inurement,” “disqualified persons,” and “excess benefit transactions,”

I recommend Appendix G in the Instructions for Form 990, Return of Organization Exempt from Income Tax. Bear in mind, the example we just gave is very simple. The processes to identify an excess benefit transaction and calculate the amount can be quite detailed.

Mike:

So, let’s pause here for a little exercise to reinforce what we’ve just explained, and we invite all of you to participate.

After you’ve heard the facts, decide whether you think prohibited inurement is present in the scenario:

Jane Doe is founder and President of XYZ Charity, a 501(c)(3) organization. As president, Jane is a voting member of the board of directors. She and her husband, Jim, also own J&J Advertising, a for-profit company. Jane signs a $200,000 contract with the company to coordinate the advertising campaign for the charity’s annual appeal.

She signs it without bringing it to the charity’s Board of Directors for discussion and action. Since Jim knows that there will be no competitive bidding for the contract, he decides that J&J Advertising will bill at a rate of about 120% of the fair market value of the work.

So what do you think? Is this a case of prohibited inurement? If you think it is, vote “yes” by clicking “yes” on the screen now, then press “submit.” If you think it is not, vote “no.” We’ll give you a moment to think and then tally up the votes. [Pause.]

Holly:

Looks like a large majority of you think this situation involves prohibited inurement, and you are right.

This scenario shows inurement to an insider. Jane uses her position with XYZ to steer the direct mail contract to J&J Advertising, in which she has a personal financial interest through herself and her husband. Also, under the excess benefit transaction rules, J&J Advertising is a disqualified person that has received an excess benefit.

The fact that Jane, as President of XYZ, signs a contract to do business with a company of which she is part owner, without competitive bidding or a search for alternative providers, is probably enough to show inurement.

Jim’s decision to overcharge for the work J&J is doing for XYZ creates a situation where there is clearly impermissible inurement to Jane. And J&J Advertising receives an excess benefit equal to the 20 percent in excess of the fair market value of the services.

If a scenario such as this was discovered in an audit of XYZ, the IRS agent most likely would propose “intermediate sanctions” on J&J Advertising. Depending upon all the facts and circumstances, the agent also might propose the 10-percent intermediate sanctions on Jane and revocation of XYZ's tax-exempt status.

Before you are faced with such a situation, your organization might want to consider adopting a "conflict of interest" policy.

The policy should require your leaders to recuse themselves from discussing or participating in any organizational activities where they or a family member have a personal financial interest.

Mike:

Note that in our example the transaction served the private interests of a for-profit business. If a benefit to a business is more than an incidental part of a charity's operations, the private benefit to the business also could jeopardize the charity's exempt status, even if the business is completely unrelated to any of the charity's insiders.

To help emphasize the importance of private inurement let's take another quiz.

DEF is a tax-exempt hospital with 250 beds, a busy emergency room, and a full range of medical and surgical specialties. Bob is the CEO of the hospital.

For the most recent calendar year, Bob was paid annual compensation of $325,000. His compensation package was recommended by the compensation committee of the hospital's board of directors . Bob is not a member of this committee. The entire board of directors voted in favor of the compensation committee's recommendation.

Bob's salary in that year was comparable to the salaries paid to CEOs of other similar-sized health-care organizations.

In addition to his salary, Bob's compensation agreement with the hospital requires that Bob be provided with the use of a BMW sedan not more than three years old for both business and personal use. His personal use of the car is carefully documented and is included as compensation on his Form W-2. Over the past few years, the cost of his personal use of the car has averaged about $14,500 per year.

Does this scenario show private benefit or inurement? If you think it does, vote "yes" by clicking "yes" on the screen now, then press "submit.". If you think it does not, vote "no." Take a minute to think this one through. [Pause.]

Holly:

Answer: There is no inurement or private benefit in this situation. When considered in total, and compared to other top health-care executives, Bob's salary and the personal use of the vehicle are reasonable compensation for his position.

Additionally, Bob's compensation arrangement was decided on and approved by the hospital board as the board's compensation committee recommended.

Because the board approved the decision, because its members had no conflicts of interest, it relied on comparability data for other CEOs and the compensation committee and the Board documented their decisions, Bob's package is presumed to be reasonable.

Mike:

Let’s move on to our second “danger zone” – lobbying and legislative activities. You’ll find those discussed on pages 8 and 9 of Publication 4221-PC.

Lobbying means activities intended to influence legislation. And what exactly does the IRS mean by “legislation”?

Legislation includes action by Congress, a state legislature, or a local council, with respect to acts, bills, resolutions, or similar items, including legislative confirmation of appointees.

It also includes action by the public in referenda, ballot initiatives, constitutional amendments, or similar procedures. However, actions by executive, judicial, or administrative bodies are not legislation.

An organization is attempting to influence legislation – in other words, it is “lobbying” –

if it contacts, or urges the public to contact, members or employees of a legislative body to propose, support,

or oppose legislation, or if the organization advocates the adoption or rejection of legislation.

Here’s an example—

Organization Z is a 501(c)(3) organization that supports a research project on the use and effects of a pesticide. Z's study leads to the conclusion that the pesticide is extremely harmful. The study contains a sufficiently full and fair exposition of the pertinent facts, including known or potential advantages of the use of the pesticide, to enable the public or an individual to form an independent opinion or conclusion as to whether pesticides should be banned.

Organization Z makes the study available on its website and describes it in its monthly member newsletter. A bill is pending in the U.S. Senate to ban the use of the pesticide.

Organization Z’s activities, as described, do not constitute lobbying.

However, if Organization Z were to name undecided Senators on the Senate committee considering the bill and recommend:

“You should write to the undecided committee members to support this crucial bill,” Organization Z would be engaging in lobbying.

For 501(c)(3) organizations some lobbying is permitted.

However, if lobbying activities are judged to be substantial, a 501(c)(3) risks failing the operational test and thus losing its tax-exempt status. Whether lobbying activities are substantial is measured by either the “substantial part” test or the “expenditure” test.

Holly:

The traditional “substantial part” test looks at all of the activities of an organization, including its volunteer time, in determining the amount of its lobbying activities. If the total lobbying activities are a substantial part of organization's activities for the year, its exempt status could be revoked.

All of the facts and circumstances of a particular situation will be considered in determining whether substantial lobbying has occurred.

As an alternative, a public charity (other than a church) may elect to have its lobbying activities measured by an "expenditure" test. This is known as a section 501(h) election, and an organization makes it by completing Form 5768.

Making the election doesn't lock you in forever. You must make the election before the end of the tax period for which it is to be effective—and it's effective for all taxable years that end after the date the form is filed.

An organization can revoke the election by filing the same form before the beginning of the tax period when the revocation will become effective. A revocation filed mid-year won't become effective until the following year.

By making this election, an organization agrees not to spend more than a certain percentage of its total expenses on lobbying activities. If there are excess expenditures, an excise tax is imposed.

An organization that has made the section 501(h) election can only lose its exemption because of lobbying if it has expenditures above the amounts permitted under section 501(h) over a period of years.

Mike:

The third way to put your tax-exempt status in jeopardy is political activity, or intervention in political campaigns. Publication 4221-PC covers this topic on pages 3 through 8.

Unlike lobbying, all 501(c)(3)s are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign supporting or opposing any candidate for elective public office.

This means ANY amount of political activity is grounds for loss of tax-exempt status.

The prohibition applies to all campaigns –federal, state and local. Violation of this prohibition may result in revocation of tax-exempt status and the imposition of excise taxes.

This prohibition extends beyond candidate endorsements. Actions that clearly violate the prohibition include contributions to political campaign funds, and making verbal or written public statements by or on behalf of an organization that favors or opposes any candidate for public office.

Distributing statements prepared by others that favor or oppose any candidate for public office will also violate the prohibition.

Finally, allowing a candidate to use an organization's assets or facilities will also violate the prohibition if other candidates are not given an equivalent opportunity.

Holly:

Let's pause here for another hypothetical scenario.

"B" is the president of a university, which is a 501(c)(3) organization. The school has a monthly newsletter that's distributed to all alumni. B writes a column called "My Views."

The month before an election, B writes in his column that "It is my personal opinion that Candidate "U" should be reelected." For that one newsletter issue, President B pays from his personal funds for the portion of the cost of the newsletter that is attributable to his "My Views" column.

Consider what factors should be taken into account in deciding whether this amounts to a violation of the political intervention prohibition?

After weighing those factors, do you think President B improperly intervened?

If you think it does, vote "yes" by clicking "yes" on the screen now, then press "submit." If you think it does not, vote "no. [Pause 3 beats]

It looks as though we have divided opinions here.

Mike:

The factors to consider are these:

Whether the president's statement identifies one or more candidates for a given public office,

Whether the statement expresses approval or disapproval for one or more candidates' positions and/or actions,

and whether the president's words can be attributed to the university, so that the university will be considered to have participated in such campaign intervention?

Conclusion: President B specifically stated that Candidate "U" should be reelected. His comments were not about a public policy issue, but were specifically a partisan endorsement for a candidate for public office.

Thus, this statement constituted participation in a political campaign.

Even though B paid part of the cost for producing the newsletter that week, because his endorsement appeared in an official publication of the university, it constitutes campaign intervention by the university.

Holly:

Moving on now: The fourth area where tax-exempt organizations can go astray is if they conduct more that an insubstantial amount of non-exempt activity.

Remember – we said earlier that a 501(c)(3) organization can conduct small, insubstantial amounts of certain types of non-exempt activity without jeopardizing its exempt status.

That's what we're going to cover here. But also remember – any amount of inurement or political activity can jeopardize your exemption. They are never okay in even small amounts.

You may wonder what exactly constitutes an activity that is more than insubstantial. The fact is that there is no bright line test. An examining agent will always have to consider all of the facts and circumstances in determining whether a non-exempt activity is substantial in relation to all of an organization's activities.

Mike:

One of the most common types of non-exempt activity conducted by an exempt organization is operating an unrelated trade or business. Not only might the conduct of such a business jeopardize an organization's exempt status, it might also generate taxable income for the organization.

The rules about when an activity generates unrelated business taxable income and the calculation of the tax are complex.

Publication 4221-PC provides some information about unrelated business income – or UBI – on pages 18 through 20. Much more detailed information can be found in Publication 598, Tax on Unrelated Business Income of Exempt Organizations.

Holly:

We'll touch briefly on a few key points about unrelated business income for exempt organizations. First, unrelated business income is income from:

* a trade or business…

* regularly carried on,…

* that is not substantially related to the organization's tax-exempt purpose

If an activity generates unrelated business income, and it is a substantial part of the organization's overall activities, it will both jeopardize the organization's exempt status and result in taxable income.

If an activity generates unrelated business income, and is an insubstantial part of the organization's overall activities, it will not jeopardize the organization's exempt status – it will just result in taxable income.

If an activity does not generate unrelated business income, or it is covered by an exception to those rules, the income from the activity generally is not taxable.

"Trade or business" generally refers to activities that produce income – usually from the sale of goods or services.

"Regularly carried on" means that the business operates continuously or frequently. An infrequent activity such as an annual fundraiser is not considered regularly carried on.

To be "substantially related," the activity must contribute in a significant way to the organization's exempt purpose.

However, merely generating income to help support other, tax-exempt activities, is not sufficient for an activity to be considered substantially related.

Mike:

Some of the most common unrelated business income-generating activities include:

* the sale of advertising space in weekly bulletins, magazines, journals or on an organization's website;

* the sale of merchandise and publications when those items do not have a substantial relationship to the exempt purpose of an organization;

* providing management or other similar services; and

* some types of fundraising activities.

Exempt organizations engage in these and many other different types of activities that can potentially generate unrelated business income.

It's when these activities are substantial in relation to all of the organization's exempt activities that an organization could jeopardize its tax-exempt status.

Again, as we said earlier, there is no bright line test for when an activity is considered substantial.

That determination can only be made after considering all the facts and circumstances.

For example, an exempt organization organized and operated for the prevention of cruelty to animals might receive unrelated business income by providing pet boarding and grooming services for the general public.

These activities do not contribute importantly to its purpose of preventing cruelty to animals.

However, so long as the pet boarding and grooming services remain an insubstantial part of the organization's activities as a whole, the organization would still be operating for exclusively exempt purposes. Only the income from pet boarding and grooming services would be taxable.

Some activities meet the three-part test for unrelated business income --or U-B-I but still are not treated as such. They are considered exceptions to the normal UBI rules.

If one of these exceptions applies, then the income from the activity will not be subject to tax.

Holly:

Common exceptions include:

* activities conducted by volunteers;

* activities conducted primarily for the convenience of an organization's members, students, patients, employees, or officers;

* selling articles donated to the organization; and

* income derived from traditional bingo games.

So for example, if a hospital auxiliary operated a cafeteria at the hospital, it could generate both related and unrelated business income. Income from sales to hospital staff and patients would be related – because of the activities are conducted for the "convenience" of patients, doctors and staff – while income from sales to the general public would be unrelated.

There are more exceptions as well as exclusions and deductions from the calculation of the unrelated business income tax—but these are beyond the scope of today's discussion.

Bear in mind that unrelated business income is not necessarily bad or a jeopardy to an organization's exempt status.

It depends on how large the activity generating the unrelated income is in relation to the organization's activities overall. Also bear in mind that if an organization has an insubstantial activity generating unrelated business income, it has an obligation to report the income and pay any tax due, if the gross amount of the unrelated income exceeds $1,000 annually. Again, Publication 598 is a great resource to consult to find out all of the particulars.

Mike:

The fifth and final area to pay close attention to is filing requirements.

While 501(c)(3) public charities are exempt from Federal income tax and Federal unemployment tax, most of these organizations have information-reporting obligations under the Code to ensure that they continue to be recognized as tax-exempt.

Churches and integrated auxiliaries do not have an annual information filing requirement. But other public charities generally file one of these forms:

Form 990 – for tax years beginning in 2010 and after, if the organization's gross receipts are more than $200,000 or if its assets are more than $500,000.

Form 990-EZ – for tax years beginning in 2010 and after, if the organization's gross receipts are normally more than $50,000 but less than $200,000, and its total assets are less than $500,000 at the end of the year.

The Form 990 instructions show how to compute an organization's "normal" gross receipts.

Form 990-N also know as the e-Postcard. can be filed for tax years beginning in 2010 and later, if an organization's gross receipts are generally $50,000 or less.

It is critical that exempt organizations file the appropriate form, filled out completely.

These information returns have different due dates than the income tax returns that individuals businesses file.

An exempt origination's annual return is due on the fifteenth day of the fifth month after the close of the organization's tax year.

So, if an organization's tax year ends on December 31, its information return is due the following May 15. For tax years ending on January 31, the return is due June 15, and so on.

Here's a very important point to remember --- any tax-exempt organization that fails to file a required annual return for three consecutive years will AUTOMATICALLY lose its tax-exempt status. And losing tax-exempt status has serious consequences. For example--

Any income the organization receives may be taxable—

The organization may have to file a Form 1120, corporate income tax return or a Form 1041 return for estates and trusts to report and possibly pay tax on the income--

Donors cannot take a charitable deduction for their contributions to the organization.

To regain tax-exempt status, a revoked organization must reapply to the IRS. That means filing Form 1023 all over again and paying the application fee.

In the meantime, income the origination receives between the revocation and the reinstatement dates may be taxable.

Neither you nor we want these things to happen. So please make sure you file.

Holly:

Much of what we've covered today can be complex. We're sure that you're not thinking much about the IRS while your organization goes about its tax-exempt purpose. When the time comes that you do have tax questions, we have resources that can help answer them and help you stay right.

Because you're most likely watching us over the Internet right now, we'll start with our web sites and online services.

IRS Exempt Organizations has its own pages on the IRS web site.

You can reach them by going to the IRS home page --- www.irs.gov --- and clicking on the Charities and Non-profits tab. Or you can type www.irs.gov/eo directly into your browser.

On the charities page, you'll find the most current topics important to tax-exempt organizations and links to more detailed articles explaining how the tax law affects organizations from universities and non-profit hospitals, to smaller organization such as yours.

There is much more on this part of the site than we can possibly cover today.

We highly recommend that you spend some time exploring our web pages. Here are a few suggestions on where to start.

Mike:

In the left hand column of the EO page are links to some of the more requested topics.

One popular resource is our "Life Cycles." We've constructed a number of these for different types of exempt organizations – private foundations, public charities, social welfare organizations and others.

The life cycles describe the five major life stages for each type of organization:

1. Starting Out: Creating an organization, acquiring an employer identification number, and identifying the appropriate federal tax classification.

2. Applying for Exemption: Acquiring, completing and submitting application forms; how the IRS processes applications; and getting help from the IRS during the application process. Since you're all experts on these topics, feel free to recommend this page to your friends.

3. Required Filings: Annual exempt organization returns, unrelated business income tax filings, and other returns and reports that an organization may have to file.

4. Ongoing Compliance: How an organization can avoid jeopardizing its tax-exempt status, disclosure requirements, employment taxes, and other ongoing compliance matters.

5. Significant Events: Audits, private letter rulings, and termination procedures.

Holly:

For answers to your general questions about exempt organizations as well as specific items about Form 990, we recommend you look at our page of F.A.Q.s or Frequently Asked Questions about Tax-Exempt Organizations.

There are a number of different categories of questions, and we update this page regularly as we receive new questions.

The Search for Charities link takes you to the online version of IRS publication 78—a list of organizations eligible to receive tax-deductible charitable contributions. You can search for a particular organization by name, city or state. This can be useful for potential donors who want to make sure that they can legitimately deduct contributions to your organization.

In addition to webinars like this, we also sponsor a limited number of in -person workshops around the country. The Calendar of Events lists these one-day workshops that are designed for small and mid-sized 501(c) (3) organizations. They are taught by experienced IRS exempt organizations specialists—like us.

If you'd like us to send you e-mails to keep you up to date on changes or additions to the Charities & Non-Profits section, we recommend subscribing to our electronic newsletter, EO Update. Click the "EO Newsletter" link on the left hand side of this page and follow the directions. Don't worry – we won't spam you. And you can unsubscribe at any time. But once you see how helpful EO Update and our web site are, I doubt that you will want to.

The Charities and Non-profits web pages do have a lot of information. To help you find exactly what you need, try using the A-to-Z Site Index. It lists most of the webpage topics alphabetically.

Mike:

IRS Exempt Organizations has a second website that's devoted to EO-related online workshops and courses. It's called "Stay Exempt" and the Web address is www.stayexempt.irs.gov.

We created this site to make available to everyone the information we provide in face-to-face, in-person workshops.

Newcomers to the world of tax-exempt organizations, as many of you probably are, might want to explore Stayexempt's Virtual Workshops. These are five interactive lessons covering the basics of 501(c)(3) organizations.

Here is "Vernon the Volunteer," one of the four fictitious representatives of exempt organizations who pop up now and then throughout the workshop. They have lots of questions, just like you. Let's take a listen to what Vern has to say:

PLAY AUDIO CLIP OF VERNON'S SCRIPT:

Holly:

Sound familiar? Overseeing all of the workshop's proceedings and answering all of the questions is "Coach," a knowledgeable, straight-talking IRS Revenue Agent. Get to know Coach at StayExempt.irs.gov – you'll be glad you did!

The Mini-Courses page offers 15 courses, most 15 minutes or less. The topics include how to complete the 990 and 990-EZ forms, deductibility issues for your supporters, a course on providing disaster relief, and more detail on something we discussed here earlier—political campaign intervention.

Mike:

Don't overlook the main IRS homepage, www.irs.gov. From there you can view and download IRS forms and publications and apply for an Employer Identification Number.

Because charities often use small business practices to run their organizations, clicking on the Business tab leads you to information on starting and operating a business, recordkeeping, and employment taxes.

For those of you who want your tax questions answered in person, we still have phone lines. Our toll-free assistance number for exempt organizations is 1-877-829-5500

Holly:

Thank you for joining us today. Visit our website anytime or contact the IRS directly when you have questions. We hope you have a smooth and rewarding career as a tax exempt nonprofit.