
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 and local officials may grant exemption from income, sales or property taxes. In addition, 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; and
- must 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