

BEST PRACTICES



Best Practices #125: 501(c)(3) Chapter Organization Cover Letter and Structure

A lot has changed since the original Best Practices Article for Tax-Exempt Status was posted in 2009. Most importantly, the IRS now provides good instructions for completing the applications, interactive forms, on-line classes and sample language for some sections.

In talking with the chapters we realized that the majority have completed the applications themselves. Their main complaint was there were no good examples of completed applications for woodturning chapters. Applicants felt they had to create much of the supporting documentation, primarily their Bylaws and Policies from scratch.

Within this Best Practice article we provide examples of documentation to support you at each junction in your effort to file for Tax Exempt Status. We have learned a lot and we would like to thank everyone who spoke with us at length, sent us materials and offered suggestion.

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The advantages for a chapter to apply for a **501(c)(3) Status as an Educational Organization**:

- Income earned by the organization is exempt from federal income tax
- Donations are tax deductible for donors
- Qualification to receive private and public grants
- Lower postage rates on corporate mailings
- Reduced rates for radio and public service announcements in the local media
- State and local officials may grant exemptions from income, sales or property tax.

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501(c)(3) Chapter Organization

Why should a woodturning chapter apply to the IRS for formal recognition as a Tax-Exempt organization?

First, formal recognition as a **Tax-Exempt** insures that income earned by the organization is exempt from federal income tax. In preparation for filing with the IRS, a chapter would first organize and file their application for incorporation with their state as a nonprofit. In some states, nonprofits may have some benefits under state law such as have a cap on liability in case of an injury.

For many chapters whose annual gross receipts do not exceed \$5,000 a year, there may be little benefit for applying for formal nonprofit recognition. But for others, failing to file could put them in violation of the law. IRS Pub 4220 states, *“An organization that is not a private foundation is not required to file an application unless its annual gross receipts are normally more than \$5,000. An organization must file an application within 90 days of the end of the tax year in which it exceeds this threshold.”*

A chapter that meets the requirement to file with the IRS and fails to do so could get in trouble with the IRS including having to pay taxes and penalties.

For chapters required to file with the IRS, two typical tax-exempt statuses would be appropriate. Each has its advantages and disadvantages.

First, a chapter could apply for a **501(c)(3) Status as an Educational Organization**. The advantages include:

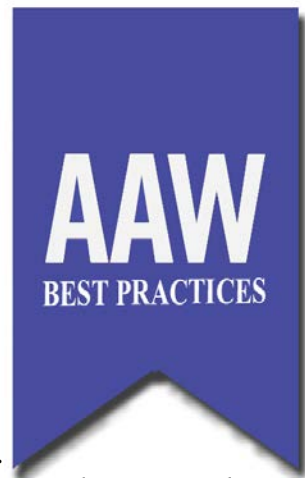
- Income earned by the organization is exempt from federal income tax
- Donations are tax deductible for donors
- Qualification to receive private and public grants
- Lower postage rates on corporate mailings
- Reduced rates for radio and public service announcements in the local media
- State and local officials may grant exemptions from income, sales or property tax.

Before filing for a **501(c)(3)** status, the chapter needs to carefully evaluate whether it has plans for seeking grants or obtaining donations that are tax deductible to the donor. This status requires more burdensome filings initially and ongoing.

A simpler alternative for some chapters would be to file under the status of **501(c)(7) Social and Recreation Clubs**. The filing requirements are somewhat less onerous than filing as a 501(c)(3). For example, a social club would typically file a 990N (e-Postcard) annually. This is much simpler than the annual 990 EZ filing typically required of a woodturning chapter under 501(c)(3).

But, under this status, the chapter’s income would still be tax-exempt from the federal government. The downside is the chapter would not be able to accept donations that would be tax deductible for donors. It is also unlikely the chapter would qualify to receive private and public grants. In most instances the filing fees would remain the same. Currently that would be \$400 if annual receipts for the past 4 years were less than \$10,000 and \$850 if receipts exceeded \$10,000.

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501(c)(3) Chapter Organization Relevant IRS Web Sites

Applying for Tax-Exempt Status

The following link is the main IRS page where most applicants begin the process. This page not only has links to the application forms, it also provides information on the required annual filings for the IRS and how to maintain your tax-exempt status. <http://www.irs.gov/Charities-&Non-Profits>
Topics Include:

[Applying for Tax Exempt Status](#)

Information about how to apply for IRS recognition of tax-exempt status.

[Annual Reporting & Filing](#)

990-series forms, requirements, and filing tips

[Educational Products, Workshops and Seminars for Exempt Organizations](#)

IRS programs and materials for non-profit organizations.

[How to Stay Exempt](#)

Resources for tax-exempt nonprofit organizations.

The second page most applicants open provides the application forms and links that help applicants complete the process.

<http://www.irs.gov/Charities-&Non-Profits/Applying-for-Tax-Exempt-Status>

The IRS now provides two application forms. The first, the IRS form 1023 EZ has only one format and is only filed on-line. The IRS Form 1023, Application for Recognition of Exemption Under Section. 501(c)(3) of the Internal Revenue Code has three different formats that may be used.

- 1) Form 1023 - does not include helpful hints and links to information. This PDF can be downloaded and completed manually
- 2) Accessible Form 1023 - allows the applicant to complete an on-line form where you only need fill in the blanks.
- 3) Form 1023 Interactive - includes helpful hints, prerequisite questions, auto-calculating fields and relevant links throughout the process to help you submit a complete application.

In addition IRS offers interactive on-line courses and videos which can be found at:

<http://www.stayexempt.irs.gov/StartingOut.aspx>

The Link [Life Cycle of an Exempt Organization](#) includes explanatory information and links to forms an organization may need to file during the five stages of its charitable life. You can also review such topics as: Starting Out, Applying for Exemption, Required Filings, Ongoing Compliance and Significant Events. Starting Out is one of the few places where you can find information on Creating an organization under state law, acquiring an employer identification number, and identifying the appropriate federal tax classification.

The Link: [Draft A](#) contains a single page of the required information addressing purposes and powers of an organization plus disposition of its assets upon dissolution. We have seen instances where the applicant copied and pasted this text into their Bylaws to assure these required topics were covered.

Beyond Application Form 1023 & Form 1023 EZ

We have found that the main reason clubs lose their non-profit status is because they fail to submit the annual reporting forms required by the IRS. The following link to IRS Form 4221, addresses these concerns and more: <http://www.irs.gov/pub/irs-pdf/p4221pc.pdf>

For information on governance topics you may want to consider for inclusion in a club's bylaws, see [Governance and Related Topics – 501\(c\)\(3\) Organizations](#) . Although the IRS only asks that you consider these topics, including them in your bylaws may increase the likelihood your application will be approved.

In addition to the topics mentioned above, [state law](#) governs filing requirements for and the contents of articles of organization. The link below provides the websites for each state.

<http://www.irs.gov/Charities-&-Non-Profits/State-Nonprofit-Incorporation-Forms-and-Information>

The IRS requires that you obtain an Employer Identification Number (EIN) and include it in your application. The Form, Understanding Your EIN will guide you through the process to obtain an EIN number. <http://www.irs.gov/pub/irs-pdf/p1635.pdf>

In general, tax-exempt organizations are required to file annual returns. Depending on a club's exempt status, a club will return either a 990 PDF, 990 F or a 990EZ form. The following link will help determine which document your club must submit.

<http://www.irs.gov/Charities-&-Non-Profits/Annual-Exempt-Organization>Returns,-Notices-and-Schedules>

Please note, if an organization does not file as required for three consecutive years, it [automatically loses its tax-exempt status](#).

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501(c)(3) Chapter Organization Filing for Tax Exemption utilizing the IRS On-Line Form 1023EZ

Most chapters seeking the benefits listed earlier will want to file for Tax Exemption using Form 1023EZ. The filing requirements are easier to meet and the IRS review time is considerably lessened. Some chapters have reported receiving their tax exempt status within three weeks from their date of filing.

Form 1023EZ is a two and one half page form that is filled out on-line. The instructions are comprehensive and easy to follow, however we have noted below a few items that we would like to point out.

Annual Filings – For those organizations with less than \$50,000 of gross receipts you are not required to file an annual return, however you must furnish notice on Form 990-N (e-Postcard) providing the information required. Annual filings are still required if your application is submitted but not yet approved. See the IRS requirements for filing.

State Requirements – State requirements for tax exempt status vary by state. See your individual state requirements/ guidelines.

Form 1023EZ Eligibility Worksheet - In addition to completing Form 1023EZ, you must complete Form 1023EZ Eligibility Worksheet. You are not required to submit this form, however you should retain the worksheet for your records.

EIN Number – You will not be able to submit your application until you have obtained your Employer identification number (EIN). The EIN number can be obtained by applying directly from [this link](#).

Incorporation – Most chapters incorporate under their state guidelines prior to filing for tax exempt status. If incorporated you must have a “necessary organizing document” that must be filed with an appropriate state authority. A chapters Bylaws may be considered an organizing document if appropriately filed with the state. If used, the bylaws must be properly structured to include your name, purpose(s), signatures and intent to form an organization. There are certain sections that must be included in your organization documents. Please see the sample Bylaws provided in the Form 1023EZ Instructions and also located within the chapter bylaws provided in later sections of this Best Practice Article.

NTEE Codes – Unlike the IRS 1023 long form, the EZ form requires you to include a National Taxonomy of Exempt Entities (NTEE) code, which summarizes an organization’s purpose. See the NTEE worksheet to determine you correct NTEE code. Code (A25 Arts Education) may be one NTEE code to consider

Attached Documents - Unlike the IRS Form 1023, Form 1023EZ does not require you to attach any supporting documentation. However, you must sign and attest to the fact that you have completed the 1023EZ Work Sheet, you have completed, received or filed your documents of Incorporation (usually your bylaws and you have filed for and received an EIN number.

1023 EZ – The following three-page PDF includes a copy of the IRS 1023 EZ Form

Form 1023-EZ Eligibility Worksheet
(Must be completed prior to completing Form 1023-EZ)

If you answer “Yes” to any of the worksheet questions, you are not eligible to apply for exemption under section 501(c)(3) using Form 1023-EZ. You must apply on Form 1023. If you answer “No” to all of the worksheet questions, you may apply using Form 1023-EZ.

1.	<p>Do you project that your annual gross receipts will exceed \$50,000 in any of the next 3 years?</p> <p>Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses. You should consider this year and the next two years.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
2.	<p>Have your annual gross receipts exceeded \$50,000 in any of the past 3 years?</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
3.	<p>Do you have total assets in excess of \$250,000?</p> <p>Total assets includes cash, accounts receivable, inventories, bonds and notes receivable, corporate stocks, loans receivable, other investments, depreciable and depletable assets, land, buildings, equipment, and any other assets.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
4.	<p>Were you formed under the laws of a foreign country (United States territories and possessions are not considered foreign countries)?</p> <p>You are formed under the laws of a foreign country if you are not formed under the laws of (1) the United States, its states, territories, or possessions; (2) federally recognized Indian tribal or Alaskan native governments; or (3) the District of Columbia.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
5.	<p>Is your mailing address in a foreign country (United States territories and possessions are not considered foreign countries)?</p> <p>Your mailing address is the address where all correspondence will be sent.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
6.	<p>Are you a successor to, or controlled by, an entity suspended under section 501(p) (suspension of tax-exempt status of terrorist organizations)?</p> <p>Section 501(p)(1) suspends the exemption from tax under section 501(a) of any organization described in section 501(p)(2). An organization is described in section 501(p)(2) if the organization is designated or otherwise individually identified (1) under certain provisions of the Immigration and Nationality Act as a terrorist organization or foreign terrorist organization; (2) in or pursuant to an Executive Order which is related to terrorism and issued under the authority of the International Emergency Economic Powers Act or section 5 of the United Nations Participation Act of 1945 for the purpose of imposing on such organization an economic or other sanction; or (3) in or pursuant to an Executive Order issued under the authority of any federal law, if the organization is designated or otherwise individually identified in or pursuant to the Executive Order as supporting or engaging in terrorist activity (as defined in the Immigration and Nationality Act) or supporting terrorism (as defined in the Foreign Relations Authorization Act) and the Executive Order refers to section 501(p)(2).</p> <p>Under section 501(p)(3) of the Code, suspension of an organization’s tax exemption begins on the date of the first publication of a designation or identification with respect to the organization, as described above, or the date on which section 501(p) was enacted, whichever is later. This suspension continues until all designations and identifications of the organization are rescinded under the law or Executive Order under which such designation or identification was made.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No

7.	<p>Are you a limited liability company (LLC)?</p> <p>Answer “Yes” if you are organized as an LLC under the laws of the state in which you were formed.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
8.	<p>Are you a successor to a for-profit entity?</p> <p>You are a successor if you have:</p> <ol style="list-style-type: none"> 1. Substantially taken over all of the assets or activities of a for-profit entity; 2. Been converted or merged from a for-profit entity; or 3. Installed the same officers, directors, or trustees as a for-profit entity that no longer exists. 	<input type="checkbox"/> Yes	<input type="checkbox"/> No
9.	<p>Were you previously revoked or are you a successor to a previously revoked organization (other than an organization the tax-exempt status of which was automatically revoked for failure to file a Form 990-series return for three consecutive years)?</p> <p>Do not check “Yes” if your previous revocation, or your predecessor’s revocation, was an automatic revocation (pursuant to section 6033(j)) for failing to satisfy Form 990-series filing requirements for three consecutive years.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
10.	<p>Are you a church or a convention or association of churches described in section 170(b)(1)(A)(i)?</p> <p>There is no single definition of the word “church” for tax purposes; however, the characteristics generally attributed to churches include:</p> <ul style="list-style-type: none"> • A distinct legal existence, • A recognized creed and form of worship, • A definite and distinct ecclesiastical government, • A formal code of doctrine and discipline, • A distinct religious history, • A membership not associated with any other church or denomination, • Ordained ministers ministering to the congregation, • Ordained ministers selected after completing prescribed courses of study, • A literature of its own, • Established places of worship, • Regular congregations, • Regular religious services, • Sunday schools for the religious instruction of the young, and • Schools for the preparation of ministers. <p>Although it is not necessary that each of the above characteristics be present, a congregation or other religious membership group that meets regularly for religious worship is generally required. A church includes mosques, temples, synagogues, and other forms of religious organizations. For more information, see Publication 1828.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No

<p>11.</p>	<p>Are you a school, college, or university described in section 170(b)(1)(A)(ii)?</p> <p>An organization is a school if it:</p> <ol style="list-style-type: none"> 1. Presents formal instruction as its primary function, 2. Has a regularly scheduled curriculum, 3. Has a regular faculty of qualified teachers, 4. Has a regularly enrolled student body, and 5. Has a place where educational activities are regularly carried on. <p>The term “school” includes primary, secondary, preparatory, high schools, colleges, and universities. It does not include organizations engaged in both educational and non-educational activities, unless the latter are merely incidental to the educational activities.</p>	<p><input type="checkbox"/> Yes</p>	<p><input type="checkbox"/> No</p>
<p>12.</p>	<p>Are you a hospital or medical research organization described in section 170(b)(1)(A)(iii) or a hospital organization described in section 501(r)(2)(A)(i)?</p> <p>An organization is a hospital described in section 170(b)(1)(A)(iii) if its principal purpose or function is providing medical or hospital care, or medical education or research. Medical care includes treatment of any physical or mental disability or condition, on an inpatient or outpatient basis. Thus, if an organization is a rehabilitation institution, outpatient clinic, or community mental health or drug treatment center, it is a hospital if its principal function is providing treatment services as described above.</p> <p>A hospital does not include convalescent homes, homes for children or the aged, or institutions whose principal purpose or function is to train handicapped individuals to pursue a vocation.</p> <p>An organization is a medical research organization described in section 170(b)(1)(A)(iii) if its principal purpose or function is the direct, continuous, and active conduct of medical research in conjunction with a hospital. The hospital with which the organization is affiliated must be described in section 501(c)(3), a federal hospital, or an instrumentality of a governmental unit, such as a municipal hospital.</p> <p>An organization is a hospital organization described in section 501(r)(2)(A)(i) if the organization operates a facility which is required by a state to be licensed, registered, or similarly recognized as a hospital.</p>	<p><input type="checkbox"/> Yes</p>	<p><input type="checkbox"/> No</p>

<p>13.</p>	<p>Are you applying for exemption as a cooperative hospital service organization under section 501(e)?</p> <p>A cooperative hospital service organization described in section 501(e) is organized and operated on a cooperative basis to provide its section 501(c)(3) hospital members one or more of the following activities.</p> <ul style="list-style-type: none"> • Data processing. • Purchasing (including purchasing insurance on a group basis). • Warehousing. • Billing and collection (including purchasing patron accounts receivable on a recourse basis). • Food. • Clinical. • Industrial engineering. • Laboratory. • Printing. • Communications. • Record center. • Personnel (including selecting, testing, training, and educating personnel) services. <p>A cooperative hospital service organization must also meet certain other requirements specified in section 501(e).</p>	<p><input type="checkbox"/> Yes</p>	<p><input type="checkbox"/> No</p>
<p>14.</p>	<p>Are you applying for exemption as a cooperative service organization of operating educational organizations under section 501(f)?</p> <p>An organization is a cooperative service organization of operating educational organizations if it is organized and operated solely to provide investment services to its members. Those members must be organizations described in section 170(b)(1)(A)(ii) or (iv) that are tax exempt under section 501(a) or whose income is excluded from taxation under section 115.</p>	<p><input type="checkbox"/> Yes</p>	<p><input type="checkbox"/> No</p>

15.	<p>Are you applying for exemption as a qualified charitable risk pool under section 501(n)?</p> <p>A qualified charitable risk pool is treated as organized and operated exclusively for charitable purposes. Check the appropriate box to indicate whether you are a charitable risk pool. A qualified charitable risk pool is an organization that:</p> <ol style="list-style-type: none"> 1. Is organized and operated only to pool insurable risks of its members (not including risks related to medical malpractice) and to provide information to its members about loss control and risk management, 2. Consists only of members that are section 501(c)(3) organizations exempt from tax under section 501(a), 3. Is organized under state law authorizing this type of risk pooling, 4. Is exempt from state income tax (or will be after qualifying as a section 501(c)(3) organization), 5. Has obtained at least \$1,000,000 in startup capital from nonmember charitable organizations, 6. Is controlled by a board of directors elected by its members, and 7. Is organized under documents requiring that: <ol style="list-style-type: none"> a. Each member be a section 501(c)(3) organization exempt from tax under section 501(a), b. Each member that receives a final determination that it no longer qualifies under section 501(c)(3) notify the pool immediately, and c. Each insurance policy issued by the pool provide that it will not cover events occurring after a final determination described in (b). 	<input type="checkbox"/> Yes	<input type="checkbox"/> No
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16.	<p>Are you requesting classification as a supporting organization under section 509(a)(3)?</p> <p>A supporting organization (as defined in section 509(a)(3)) differs from the other types of public charities described in section 509. Instead of describing an organization that conducts a particular kind of activity or that receives financial support from the general public, section 509(a)(3) describes organizations that have established certain relationships in support of public charities described in section 509(a)(1) or 509(a)(2). Thus, an organization can qualify as a supporting organization (and not be classified as a private foundation) even though it may be funded by a single donor, family, or corporation. This kind of funding ordinarily would indicate private foundation status, but a section 509(a)(3) organization has limited purposes and activities, and gives up a significant degree of independence. A supporting organization is an organization that:</p> <ol style="list-style-type: none"> 1. Is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more specified organizations as described in section 509(a)(1) or 509(a)(2). These section 509(a)(1) and 509(a)(2) organizations are commonly called publicly supported organizations. 2. Has one of three types of relationships with one or more organizations described in section 509(a)(1) or 509(a)(2). It must be: <ol style="list-style-type: none"> a. Operated, supervised, or controlled by one or more section 509(a)(1) or 509(a)(2) organizations (Type I supporting organization); b. Supervised or controlled in connection with one or more section 509(a)(1) or 509(a)(2) organizations (Type II supporting organization); or c. Operated in connection with one or more section 509(a)(1) or 509(a)(2) organizations (Type III supporting organization). 3. Is not controlled directly or indirectly by disqualified persons (as defined in section 4946) other than foundation managers and other than one or more organizations described in section 509(a)(1) or 509(a)(2). <p>See Publication 557 for more information.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
17.	<p>Is a substantial purpose of your activities to provide assistance to individuals through credit counseling activities such as budgeting, personal finance, financial literacy, mortgage foreclosure assistance, or other consumer credit areas?</p> <p>These activities involve the education of the consumer on budgeting, personal finance, financial literacy, mortgage foreclosure assistance, or other consumer credit areas. It may also involve assisting the consumer in consolidating debt and negotiating between debtors and creditors to lower interest rates and waive late and over-limit fees.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
18.	<p>Do you or will you invest 5% or more of your total assets in securities or funds that are not publicly traded?</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
19.	<p>Do you participate, or intend to participate, in partnerships (including entities treated as partnerships for federal tax purposes) in which you share profits and losses with partners other than section 501(c)(3) organizations?</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
20.	<p>Do you sell, or intend to sell carbon credits or carbon offsets?</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
21.	<p>Are you a Health Maintenance Organization (HMO)?</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No

22.	<p>Are you an Accountable Care Organization (ACO), or do you engage in or intend to engage in ACO activities?</p> <p>ACOs are entities formed by groups of physicians, hospitals, and other health care service providers and suppliers to manage and coordinate the care provided to patients. For a discussion of tax law issues relating to ACOs, see Notice 2011-20 and FS-2011-11, available at www.irs.gov/uac/Tax-Exempt-Organizations-Participating-in-the-Medicare-Shared-Savings-Program-through-Accountable-Care-Organizations.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
23.	<p>Do you maintain or intend to maintain one or more donor advised funds?</p> <p>In general, a donor advised fund is a fund or account that is owned and controlled by the organization but that is separately identified by reference to contributions of a donor or donors and with respect to which a donor (or any person appointed or designated by the donor) has or expects to have advisory privileges concerning the distribution or investment of amounts held in the fund or account by reason of the donor's status as a donor. For additional information, see Publication 557.</p> <p>Check "No" if you are a governmental unit referred to in section 170(c)(1) or a private foundation referred to in section 509(a).</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
24.	<p>Are you organized and operated exclusively for testing for public safety and requesting a foundation classification under section 509(a)(4)?</p> <p>Generally, these organizations test consumer products to determine their acceptability for use by the general public.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
25.	<p>Are you requesting classification as a private operating foundation?</p> <p>Private foundations lack general public support. What distinguishes a private operating foundation from other private foundations is that it engages directly in the active conduct of charitable, religious, educational, and similar activities (as opposed to indirectly carrying out these activities by providing grants to individuals or other organizations). Private operating foundations are subject to more favorable rules than other private foundations in terms of charitable contribution deductions and attracting grants from private foundations. However, to be classified as a private operating foundation, an organization must meet certain tests. Additional information about private operating foundations is available at www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Private-Operating-Foundations.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
26.	<p>Are you applying for retroactive reinstatement of exemption under section 5 or 6 of Rev. Proc. 2014-11, after being automatically revoked?</p> <p>Only organizations applying for reinstatement under section 4 or 7 of Rev. Proc. 2014-11 may use Form 1023-EZ. If you are applying for retroactive reinstatement under section 5 or 6 of Rev. Proc. 2014-11, you must submit the full Form 1023 along with the appropriate reasonable cause statement and a statement confirming you have filed the required annual returns as described in the revenue procedure.</p>	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

▶ Do not enter social security numbers on this form as it may be made public.
▶ Information about Form 1023-EZ and its separate instructions is at www.irs.gov/form1023.

Note: If exempt status is approved, this application will be open for public inspection.

Check this box to attest that you have completed the Form 1023-EZ Eligibility Worksheet in the current instructions, are eligible to apply for exemption using Form 1023-EZ, and have read and understand the requirements to be exempt under section 501(c)(3).

Part I Identification of Applicant

1a Full Name of Organization _____

b Address (number, street, and room/suite). If a P.O. box, see instructions. **c** City _____ **d** State _____ **e** Zip Code + 4 _____

2 Employer Identification Number _____ **3** Month Tax Year Ends (MM) _____ **4** Person to Contact if More Information is Needed _____

5 Contact Telephone Number _____ **6** Fax Number (optional) _____ **7** User Fee Submitted _____

8 List the names, titles, and mailing addresses of your officers, directors, and/or trustees. (If you have more than five, see instructions.)

First Name:	Last Name:	Title:	Street Address:	City:	State:	Zip Code + 4:
First Name:	Last Name:	Title:	Street Address:	City:	State:	Zip Code + 4:
First Name:	Last Name:	Title:	Street Address:	City:	State:	Zip Code + 4:
First Name:	Last Name:	Title:	Street Address:	City:	State:	Zip Code + 4:
First Name:	Last Name:	Title:	Street Address:	City:	State:	Zip Code + 4:

9 a Organization's Website (if available): _____

b Organization's Email (optional): _____

Part II Organizational Structure

1 To file this form, you must be a corporation, an unincorporated association, or a trust. **Check the box** for the type of organization.
 Corporation Unincorporated association Trust

2 **Check this box** to attest that you have the organizing document necessary for the organizational structure indicated above.
 (See the instructions for an explanation of **necessary organizing documents**.)

3 Date incorporated if a corporation, or formed if other than a corporation (MMDDYYYY): _____

4 State of incorporation or other formation: _____

5 Section 501(c)(3) requires that your organizing document must limit your purposes to one or more exempt purposes within section 501(c)(3).
 Check this box to attest that your organizing document contains this limitation.

6 Section 501(c)(3) requires that your organizing document must not expressly empower you to engage, otherwise than as an insubstantial part of your activities, in activities that in themselves are not in furtherance of one or more exempt purposes.
 Check this box to attest that your organizing document does not expressly empower you to engage, otherwise than as an insubstantial part of your activities, in activities that in themselves are not in furtherance of one or more exempt purposes.

7 Section 501(c)(3) requires that your organizing document must provide that upon dissolution, your remaining assets be used exclusively for section 501(c)(3) exempt purposes. Depending on your entity type and the state in which you are formed, this requirement may be satisfied by operation of state law.
 Check this box to attest that your organizing document contains the dissolution provision required under section 501(c)(3) or that you do not need an express dissolution provision in your organizing document because you rely on the operation of state law in the state in which you are formed for your dissolution provision.

Part III Your Specific Activities

- 1 Enter the appropriate 3-character NTEE Code that best describes your activities (See the instructions): _____
- 2 To qualify for exemption as a section 501(c)(3) organization, you must be organized and operated exclusively to further one or more of the following purposes. By checking the box or boxes below, you attest that you are organized and operated exclusively to further the purposes indicated. **Check all that apply.**

<input type="checkbox"/> Charitable	<input type="checkbox"/> Religious	<input type="checkbox"/> Educational
<input type="checkbox"/> Scientific	<input type="checkbox"/> Literary	<input type="checkbox"/> Testing for public safety
<input type="checkbox"/> To foster national or international amateur sports competition		<input type="checkbox"/> Prevention of cruelty to children or animals
- 3 To qualify for exemption as a section 501(c)(3) organization, you must:
 - Refrain from supporting or opposing candidates in political campaigns in any way.
 - Ensure that your net earnings do not inure in whole or in part to the benefit of private shareholders or individuals (that is, board members, officers, key management employees, or other insiders).
 - Not further non-exempt purposes (such as purposes that benefit private interests) more than insubstantially.
 - Not be organized or operated for the primary purpose of conducting a trade or business that is not related to your exempt purpose(s).
 - Not devote more than an insubstantial part of your activities attempting to influence legislation or, if you made a section 501(h) election, not normally make expenditures in excess of expenditure limitations outlined in section 501(h).
 - Not provide commercial-type insurance as a substantial part of your activities. **Check this box** to attest that you have not conducted and will not conduct activities that violate these prohibitions and restrictions.
- 4 Do you or will you attempt to influence legislation? Yes No
(If yes, consider filing Form 5768. See the instructions for more details.)
- 5 Do you or will you pay compensation to any of your officers, directors, or trustees? Yes No
(Refer to the instructions for a definition of **compensation**.)
- 6 Do you or will you donate funds to or pay expenses for individual(s)? Yes No
- 7 Do you or will you conduct activities or provide grants or other assistance to individual(s) or organization(s) outside the United States? Yes No
- 8 Do you or will you engage in financial transactions (for example, loans, payments, rents, etc.) with any of your officers, directors, or trustees, or any entities they own or control? Yes No
- 9 Do you or will you have unrelated business gross income of \$1,000 or more during a tax year? Yes No
- 10 Do you or will you operate bingo or other gaming activities? Yes No
- 11 Do you or will you provide disaster relief? Yes No

Part IV Foundation Classification

Part IV is designed to classify you as an organization that is either a private foundation or a public charity. Public charity status is a more favorable tax status than private foundation status.

- 1 If you qualify for public charity status, check the appropriate box (**1a – 1c** below) and skip to **Part V** below.
 - a **Check this box** to attest that you normally receive at least one-third of your support from public sources or you normally receive at least 10 percent of your support from public sources and you have other characteristics of a publicly supported organization. **Sections 509(a)(1) and 170(b)(1)(A)(vi).**
 - b **Check this box** to attest that you normally receive more than one-third of your support from a combination of gifts, grants, contributions, membership fees, and gross receipts from permitted sources) from activities related to your exempt functions and normally receive not more than one-third of your support from investment income and unrelated business taxable income. **Section 509(a)(2).**
 - c **Check this box** to attest that you are operated for the benefit of a college or university that is owned or operated by a governmental unit. **Sections 509(a)(1) and 170(b)(1)(A)(iv).**
- 2 If you are not described in items **1a – 1c** above, you are a private foundation. As a private foundation, you are required by section 508(e) to have specific provisions in your organizing document, unless you rely on the operation of state law in the state in which you were formed to meet these requirements. These specific provisions require that you operate to avoid liability for private foundation excise taxes under sections 4941-4945.
 - Check this box** to attest that your organizing document contains the provisions required by section 508(e) or that your organizing document does not need to include the provisions required by section 508(e) because you rely on the operation of state law in your particular state to meet the requirements of section 508(e). (See the instructions for explanation of the section 508(e) requirements.)

Form 1023-EZ is filed electronically only on Pay.gov.

Part V Reinstatement After Automatic Revocation

Complete this section only if you are applying for reinstatement of exemption after being automatically revoked for failure to file required annual returns or notices for three consecutive years, and you are applying for reinstatement under section 4 or 7 of Revenue Procedure 2014-11. (Check only one box.)

- 1 **Check this box** if you are seeking retroactive reinstatement under section 4 of Revenue Procedure 2014-11. By checking this box you attest that you meet the specified requirements of section 4, that your failure to file was not intentional, and that you have put in place procedures to file required returns or notices in the future. (See the instructions for requirements.)
- 2 **Check this box** if you are seeking reinstatement under section 7 of Revenue Procedure 2014-11, effective the date you are filing this application.

Part VI Signature

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, and to the best of my knowledge it is true, correct and complete.

(Type name of signer)

(Type title or authority of signer)

**PLEASE
SIGN
HERE** ▶

(Signature of Officer, Director, Trustee, or other authorized official)

(Date)

Form **1023-EZ** (6-2014)

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BEST PRACTICES



501(c)(3) Chapter Organization, Summary Suggestions from the Authors

The new IRS 1023EZ electronic form for application as a Tax Exempt organization is likely to become the standard for woodturning chapters. Because of the significant reduction in materials that must be provided, we believe that most chapters will now file for Tax Exempt Status without hiring lawyers or accountants to manage the process on their behalf.

Those chapters who hired outside consultants to complete their application for tax-exempt status were more likely to miss the deadlines for their annual reporting to the IRS and the State Business Licensing Agencies. Annual filings for the IRS are due the year the application is submitted. Once the applications are submitted, chapters should modify their Bylaws or Policies & Procedures to clearly assign responsibility to chapters officers for the review of the annual reports to the IRS & state agencies and assure these documents are sent in on time.

Those chapters who filed themselves received a quicker response, possibly as a result of speaking to an IRS processor during the application process.

We found that woodturning chapters can complete the application process themselves. There are resources available to assist chapters in the process including IRS on-line assistance, speaking with IRS agents, and calling upon assistance from other chapters who have completed the process.

In Form 1023 Section X, Public Charity Status, it's not advisable to ask IRS to determine your status. Some who have done so have received an IRS Request for Information letter that required around 50 pages to answer. The Request for Information may or may not have been initiated by asking IRS to determine status, but many of the questions requested information that would be helpful in determining an exempt status. Choose the status that best fits your organization. A good choice for most is box h, 509(a)(2).

We hope the information in this article makes the application process a little less daunting. We are always interested in improving our Best Practices Articles and welcome your comments and suggestions. Please send your comments to Best Practices Committee Chair through Linda@woodturner.org.

[I would like to thank Michael Peace http://mikepeacewoodturning.blogspot.com.](http://mikepeacewoodturning.blogspot.com) [and Pat Jenkins from the Central Texas Woodturners in Austin, Texas](#) [for all their help with this article.](#)

[Denis Delehanty](#)