

## Seeking 501(c)3 Status or Reinstatement?

### Helpful Tips for Associations Using the New, Shortened IRS Form 1023-EZ

*NOTE: The content of this article is not be considered legal advice. Associations wishing to apply for Federal tax exempt status should consult local tax professionals. The tips serve only as a starting point for an association's decision to apply.*

Is your local Master Gardener association thinking of applying for tax exempt status? Sometimes referred to as 501(c)3 status, tax exempt status establishes that your association does not have to pay federal income tax and that donors' contributions may be deducted on their federal tax returns. The status can be beneficial, but is filing right for your organization?

Prior to July 1, 2014, the application for tax exempt status was a 26-page form that required many additional pages of narrative. The IRS now makes available Form 1023-EZ. This application is a three-page document which is completed online. Applying organizations must have annual gross receipts of less than \$50,000, so record keeping and calculations are still required, and other documents must be in place. But the overall work and IRS turnaround time is significantly less.

#### **Considerations before you file Form 1023-EZ**

The first thing you'll want to do is to go to the *Instructions for IRS Form 1023-EZ* at <http://www.irs.gov/pub/irs-pdf/i1023ez.pdf>. There is an Eligibility Worksheet on pages 11-16 that you must complete and save as part of your documentation (although it is not submitted). Don't let the number of pages stop you! There is a lot of text you'll jump over.

#### **Your Organization is Eligible, But What Else Is Required?**

If your organization is eligible, you will still want to make sure you have other requirements in place, or are willing to put them in place. Among the requirements are:

- Organizing documents (Articles of Incorporation, Bylaws, etc.) that include
  - Your organization's tax exempt purposes<sup>1</sup> and no empowerment to achieve other purposes which are not tax exempt
  - Your association is not organized for the benefit of private shareholders or individuals
  - A dissolution clause
  - A date-defined tax year
- Certificate of Incorporation<sup>2</sup> or date of formation
- Employer Identification Number<sup>3</sup>
- Annual gross receipts (total amounts of money you received from all sources, without subtracting any costs or expenses) are less than \$50,000<sup>4</sup>

You'll complete Form 1023-EZ at [www.pay.gov](http://www.pay.gov). The site requires that you set up an account for your association before you access the form, and you'll pay the \$400 filing fee here, too. While it might not be typical, VMGA received its notice of retroactive reinstatement of exempt status in 15 days.

#### **Staying Exempt**

After IRS notification of your tax exempt status and ongoing each year, your association will need to file an annual tax return, the 990 or 990-EZ. Most associations will be able to file the online or "e-postcard," IRS Form 990-N. To submit the 990-N, an account must be set up at

<http://epostcard.form990.org/>. It takes only minutes to enter identification and contact information and a confirmation that the organization has annual gross receipts less than \$50,000 – that’s it! There are other requirements; the IRS provides ongoing compliance information at <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Life-Cycle-of-a-Public-Charity-Ongoing-Compliance>.

## Resources

- The Instructions for IRS Form 1023-EZ and other IRS publications are helpful, and provide samples of the language for the tax exempt purposes, dissolution clause and more. Start your research at <http://www.irs.gov/Charities-&-Non-Profits>.
- Subscribe to the IRS email service, *Exempt Organization Update*. Go to <http://www.irs.gov/Charities-&-Non-Profits/Subscribe-to-Exempt-Organization-Update> to sign up. The emailed updates alert you of changes to policy and – most importantly – **free, online classes** for non-profit organizations which are, or are applying for, tax exempt status.
- Another source are the submitted forms that are public information (as yours will be). If you want to see how other organizations have completed similar paperwork, try Guidestar at <http://www.guidestar.org> or the National Center for Charitable Statistics at <http://nccs.urban.org/>.
- And never forget that there are many local MG associations across the state that have been through the process. Many completed the 26-page application, but their experience will assist you with IRS lingo. Write VMGA’s Communication Chair at [communications@vmga.net](mailto:communications@vmga.net) to access the help you are looking for!
- To see the IRS Form 1023-EZ submitted by VMGA, go to [\[insert link to PDF of document\]](#). Please note that VMGA’s responses may be different from your association.

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<sup>1</sup>Your articles of incorporation must specify the purpose(s) of your organization, and they must be one of the acceptable purposes such as charitable, educational, scientific or others as spelled out in the Instructions for 1023-EZ. The Instructions include a sample of an acceptable purpose clause.

<sup>2</sup>The applying organization must be a trust, incorporated association or unincorporated association. You can submit Form 1023-EZ to become a tax exempt organization as an unincorporated association, however, unincorporated associations cannot exceed more than \$5,000 in income in one tax year. Unincorporated associations are usually appropriate for accomplishing short-term goals. Members and directors of unincorporated associations may be liable should the association be sued. Additionally, unincorporated associations find it difficult to obtain donations without the 501(c)3 designation. For some considerations of whether or not to incorporate, go to <http://www.nolo.com/legal-encyclopedia/five-reasons-incorporate-nonprofit-association-30266.html>.

<sup>3</sup>Information about the federal Employer Identification Number can be found at [http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-\(EIN\)-Online](http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online).

<sup>4</sup>While you can generally figure in your head if your annual gross receipts are less than \$50,000, you should have the systems set up to put numbers on paper. A good starting point is [www.nonprofitaccountingbasics.org](http://www.nonprofitaccountingbasics.org). Don’t ignore this step! The IRS may ask for this, and it is much, much easier to collect data than to go back and re-create it.