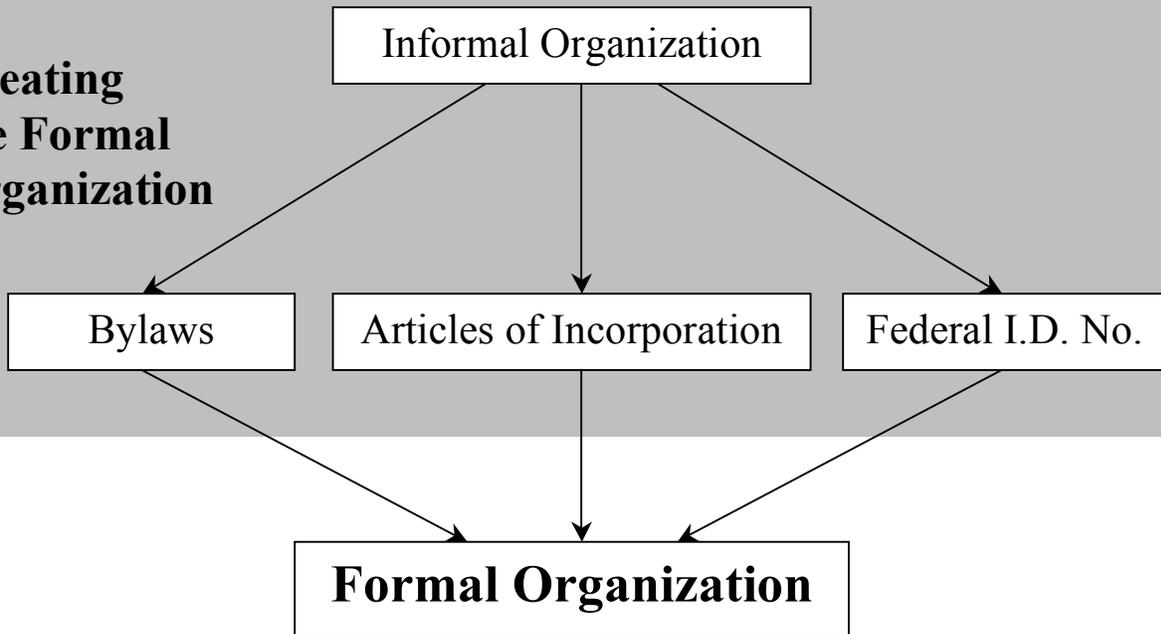


APPLICATION STEPS

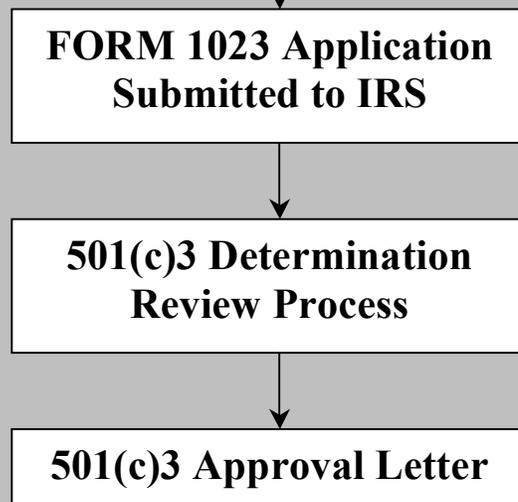
STEP 1

Creating the Formal Organization



STEP 2

Creating the 501(c)3



MAJOR COMPONENTS OF A 501(c)(3) APPLICATION

Articles of Incorporation (approved by Missouri Secretary of State)

Bylaws

Federal I.D. Number (Employer Identification Number)

501(c)(3) Application Form

Supporting Document

This section of the book will provide specific guidance in completing the forms to:

- a. Incorporate as a not-for-profit organization in Missouri (Pages 28-31).
- b. Apply for 501(c)(3) designation from the Internal Revenue Service (Pages 33-65)

One of the primary problems for many aspiring not-for-profit organizations is they assume that once they have successfully completed the filing of their organization's Articles of Incorporation with the Missouri secretary of state's office that they have become a 501(c)(3) organization. **This is not correct!** To become a 501(c)(3) organization, the second step of completing the Form 1023 Application, filing it with the IRS for review and receiving formal approval complete the process.

As noted in section 1 the process of incorporating as a not-for-profit corporation in the state of Missouri is often confused with the Federal 501(c)(3) application process. Incorporating in Missouri as not-for-profit does not automatically make an organization a 501(c)(3) corporation. It does make an organization exempt from Missouri taxes but meeting the state requirements for a not-for-profit does not guarantee that an organization will qualify for federal tax-exempt status under section 501(c)(3) of the Internal Revenue code. The 501(c)(3) process is separate from the process of establishing the not-for-profit in Missouri. Getting incorporated in Missouri is a part of a first step that prepares an organization to file for 501(c)(3) status with the IRS.

Step 1 moves a group from an often loose, informal structure to a formal legal structure with decision-making and accounting procedures making it a formal organization. These procedures do not need to be complex, but they do need to be accurate and well maintained. We have already talked about creating bylaws which provide structure to the organization. The other two components of Step 1 are the Articles of Incorporation (which results from the state incorporation process and the Employer Identification number. The next few pages will take you through those processes.

After completing the three phases of Step 1 (Bylaws, Articles of Incorporation, and Employer Identification Number) the organization will be transformed from an informal group into a formal not-for-profit corporation. However, the organization will not be a 501(c)(3). Many of the necessary prerequisites for filing a 501(c)(3) are included in Step 1. Step 2 includes the actual process of filing the 501(c)(3) application.

Step 2 entails completing and filing the forms that the Internal Revenue Service requires so they can to review the application and make a determination as to whether or not the not-for-profit organization qualifies for 501(c)(3) designation by the IRS.

The remainder of this workbook will take you through the steps of becoming incorporated in Missouri, filing for an Employer identification number, and preparing the application for 501(c)(3) designation by the Internal Revenue Service.

Completing the three phases of Step 1 (Bylaws, Articles of Incorporation, and Employer Identification Number) transforms the informal group into a formal not-for-profit corporation. However, the organization is still not a 501(c)(3).

THE APPROVAL PROCESS

Completing the application process and submitting the application to the IRS for review is not the end of the process for the organization making an application for 501(c)(3) status. The application will be closely scrutinized before it is approved by the Internal Revenue Service. The time it takes to actually receive exemption once the application is filed will vary a great deal.

Usually a group can plan on three to six months before receiving approval. Occasionally a group will receive it much more quickly, but most often it takes at least three months.

Once the application is submitted, the IRS will assign the application to an agent for review. The IRS agent will study the application in order to determine that everything (including supporting documentation) is included in the application and to evaluate the application to see whether or not it meets the exemption criteria for a 501(c)(3).

In most instances a letter will be sent back to the group filing the application for the 501(c)(3) (specifically the person identified on Page 1 of Form 1023) asking for more information. The letter will almost always ask for more information. Sometimes there is something missing or filled out incorrectly and they will request the missing pieces. Normally they will ask for further clarification on something in the application. They often have questions about what was written in the narrative sections in part IV.

Since there are generally follow-up questions to an application the contact person on the first page is very important. **When determining who should be listed on the application, it is always a good idea to make sure the person who actually completed the application is listed as the contact person on the front of the application even if this person is not an officer in the corporation. This will help facilitate the process of getting the supporting documentation in a timely manner.**

When the IRS sends a request for additional information they will assign a due date. Please take this date seriously. If they do not receive the materials they requested by the due date, the IRS may cancel the application. The applicant would forfeit their filing fee and have to start over. If it is not possible to get the work done by the due date, please make sure to contact person identified as the reviewer in the letter. If they are notified early enough they will generally grant more time to gather information. However, the extra time must be requested. The phone number of the contact person will be included in the letter.

As a matter of course, once the group receives a letter from the IRS it is a good idea to call that person and ask for clarification. Sometimes the letter requesting more information is vague or difficult to understand. Do not be afraid to call and ask for clarity. Pay close attention to what they say and then try to answer their questions as accurately as possible. They will then take the new information and continue reviewing the application.

Sometimes there will be a follow-up letter asking for even further clarification. In fact, this can occur two or three times. Try not to get discouraged. In most instances a group can work out the differences. Having said that, the IRS may request some changes to the organization in order to receive designation as a 501 (c)(3). They may suggest changing some of the accounting or funding schemes of the group. These requests need to be taken seriously.

If the process seems unfair or slow do not hesitate to contact the congressional representative in your area. They can be very helpful in expediting the process. Often, IRS representatives are very busy and do not place a high priority on reviewing 501(c)(3) applications. Congressional representatives (or their staffs) can be very helpful in getting clarification particularly in situations where a group feels it is not getting a fair hearing.

Help is out there for groups that feel this may be too big a project for its members. Sometimes it is free and sometimes it is not. For instance, an attorney's advice can be very helpful, particularly as a person to review the application to make sure that there are no glaring legal mistakes. There are attorneys who will do these kinds of projects for free, but it may take some time. Paying customers generally get attention first.

Don't assume that all attorneys are familiar with the 501(c)(3) application process. Be sure to ask them about their experience. The Missouri Bar Association may be helpful in finding attorneys who are interested in working with not-for-profits. Accountants may also provide assistance to local groups applying for a 501 (c)(3).

Once a group has met all the requirements, it will receive a letter from the IRS notifying it that the group has been approved. This letter will also spell out the conditions of acceptance. Please read those conditions carefully and take them seriously. The 501(c)(3) tax exemption can be beneficial to an organization, but it is also a big responsibility.

ONCE AN ORRGANIZATION IS APPROVED

Annual Reporting Requirements

State of Missouri



State Incorporation

Internal Revenue Service



Form 990

An organization approved for 501(c)(3) status by the Internal Revenue Service will need to maintain regular contact with both the Missouri Office of the Secretary of State and the Internal Revenue Service.

The Missouri Office of the Secretary of State requires that a not-for-profit organization renew its state incorporation papers on an annual basis. The registered agent designated for the organization will receive an annual renewal form in early summer. The form will need to be completed and filed with the Secretary of State in order to maintain the organization's status as a not-for-profit in Missouri. Keeping an organization's status current with the State of Missouri is also necessary in order to maintain their 501(c)(3) status with the IRS. If a group does not keep their incorporation status current with the State in which they are incorporated their 501(c)(3) will not be valid until the organization gets current again with their state.

If an organization is designated a 501(c)(3) corporation then it will need to file the equivalent of an annual tax return. Since they are not-for-profit organizations they will not have to pay a tax. However the IRS wants to a financial accounting of the organization's fiscal resources. The IRS asks 501(c)(3) corporations to use Form 990 to meet these annual reporting requirements. Small organizations are an exception to this rule. If a 501(c)(3) organization is very small and has annual revenues of less than \$25,000 it does not have to file a form 990. However, most 501(c)(3) organizations will need to file a Form 990 with the IRS in the spring of each year during the tax season.

Failure to complete both the state incorporation renewal form and/or the IRS Form 990 every year may place your state incorporation and/ or 501(c)(3) status in jeopardy.

INCORPORATING IN MISSOURI

Once an organization has Articles of Incorporation filed with the Secretary of State it is recognized as a not-for-profit corporation in the state of Missouri. If an application is accepted, the corporation will be exempt from paying taxes to the state of Missouri as long as the organization meets the state's criteria. The following explains how to complete the application.

1. The name of the corporation should appear exactly as the group wants it to appear on all future records and transactions. This name will identify the organization in all dealings with the State of Missouri and the IRS.
2. The Secretary of State wants to know who is going to benefit from the activities of the organization. Will the benefits of the organization go to the public or will they advance the interests of a membership group or a specific segment of the population? **All 501(c)(3) applicants must be "public" benefit corporations.**
3. Most will answer "perpetual." If an organization is being formed for temporary purposes, then write in the date the corporation will end. If the intention is to create a permanent corporation then write in "perpetual". Perpetual means at the time of application there is no plan to terminate the corporation in the foreseeable future.
4. The registered agent is the person the representative from the Office of the Secretary of State will communicate with on an annual basis. They do not need to be an officer of the corporation but should be active in the organization. The registered agent will receive the approved Articles of Incorporation and the annual renewal notice.

An annual renewal notice is sent to all not-for-profit corporations. The registered agent needs to complete, sign and return the renewal to the Secretary of State with the required fee. This is a critical job for the not-for-profit corporation. **If an organization is successful in obtaining 501(c)(3) status it must keep the annual registration current or jeopardize the not-for-profit status of the corporation with the IRS.**
5. The incorporators represent the corporation. They can be officers and/or board members. There should be at least three incorporators listed. It is not necessary to include everyone who will serve on the board. In fact, it is probably more manageable to limit the number of incorporators to three or four because the application needs original signatures for all the incorporators.
6. If the organization maintains a membership this should be marked "yes." If the corporation is the board of directors model and there is no other membership, it is not technically a membership organization, so "no" should be the response. How a group answers this question will not affect whether or not they will qualify as a 501(c)(3).
7. Both the State of Missouri and the IRS are concerned about the assets of the organization will be used upon dissolution. Attach to the application a copy of the dissolution clause listed on page 31 titled "Important notice for Missouri not-for-profit corporations." **This paragraph must be included with the Articles of Incorporation to qualify for 501(c)(3) status.** Write, "see attached dissolution clause" and submit a copy of the "Important notice for Missouri not-for-profits corporations" with your Articles of Incorporation
8. Please describe the purpose of the corporation. Write a brief statement that describes why the corporation is being formed. In addition, include the statement "see attached purpose clause" and refer to the purpose statement described on page 31 "Important notice for Missouri not-for-profit corporations." **This purpose statement must also be included with the Articles of Incorporation to qualify for 501(c)(3) status.**
9. Unless there is a specific date desired to serve as the starting date of the organization leave this question blank. The corporation will begin on the date stamped on the Articles of Incorporation returned by the Secretary of State.

All incorporators sign the application. Do this twice because the secretary of state will need two original copies of the application. Each copy needs the statements mentioned in questions seven and eight attached to them. Submit the two completed applications and filing fee to the Secretary of State. One copy of the Articles of Incorporation will be kept by the Secretary of State's office for its records and the other will be returned. Once the articles have the stamp of the Secretary of State on them then you are an official not-for-profit corporation in the state of Missouri.

When you submitting the application for 501(c)(3) status include a copy of the Articles of Incorporation with the application.

Make sure Articles of Incorporation sent to the IRS include the page with the purpose statement and dissolution clause attached to it. Otherwise, the processing of the 501(c)(3) application will be delayed.



State of Missouri
Robin Carnahan, Secretary of State

Corporations Division
P.O. Box 778 / 600 W. Main Street, Rm 322
Jefferson City, MO 65102

Articles of Incorporation of a Nonprofit Corporation

(To be submitted with a filing fee of \$25)

The undersigned natural person(s) of the age of eighteen years or more for the purpose of forming a corporation under the Missouri Nonprofit Corporation Act adopt the following Articles of Incorporation:

(1) The name of the corporation is _____

(2) This corporation is a _____ Benefit Corporation.

(Public or Mutual)

(3) The period of duration of the corporation is _____

("Perpetual" unless stated otherwise)

(4) The name and street address of the Registered Agent and Registered Office in Missouri is:

Name Address City/State/Zip

(5) The name(s) and address(es) of each incorporator:

(6) Does the corporation have members? YES _____ NO _____

(7) The assets of the corporation will be distributed on dissolution as follows: _____

(8) The corporation is formed for the following purpose(s): _____

(9) The effective date of this document is the date it is filed by the Secretary of State of Missouri, unless you indicate a

future date, as follows: _____

(Date may not be more than 90 days after the filing date in this Office)

SAMPLE DO NOT USE THIS FORM

Please see next page

Name and address to return filed document:
Name: _____
Address: _____
City, State, and Zip Code: _____

Corp. 52 (01/05)

In Affirmation thereof, the facts stated above are true and correct:
(The undersigned understands that false statements made in this filing are subject to the penalties provided under Section 575.040, RSMo)

Signed by Incorporator(s):

SAMPLE DO NOT USE THIS FORM

IMPORTANT NOTICE FOR PERSONS FORMING MISSOURI NOT-FOR-PROFIT CORPORATIONS

If you wish to obtain a 501(c)(3) tax-exempt status from the IRS please review the following instructions.

INSTRUCTIONS

In order to come within the purview of Section 501(c)(3) of the Internal Revenue Code you must include the statements below in your Articles of Incorporation as filed with the secretary of state. PLEASE NOTE THAT YOUR PURPOSE CLAUSE MUST INCLUDE MORE INFORMATION THAN STATED BELOW. THIS SAMPLE CLAUSE JUST SATISFIES IRS PURPOSES AND IS NOT SUFFICIENT BY ITSELF FOR THE SECRETARY OF STATE'S OFFICE. OUR OFFICE REQUIRES ADDITIONAL INFORMATION IN THE PURPOSE CLAUSE THAT INDICATES WHAT THE CORPORATION IS DOING. After the secretary of state has returned the articles to you, furnish a copy to the IRS when applying for the tax-exempt status.

PURPOSE: The corporation is organized exclusively for charitable, educational, religious or scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

INUREMENT OF INCOME: No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its members, directors, officers or other private persons except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered.

LEGISLATIVE OR POLITICAL ACTIVITIES: No substantial part of the activities of the corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, and the corporation shall not participate in or intervene (including the publishing or distribution of statements) in any political campaign on behalf of any candidate for public office.

OPERATIONAL LIMITATIONS: Notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law) or (b) by a corporation, contributions to which are deductible under Section 170(c)2 of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law).

DISSOLUTION CLAUSE: Upon the dissolution of the corporation, the board of directors shall, after paying provisions for the payment of all of the liabilities of the corporation, dispose of all the assets of the corporation exclusively for the purposes of the corporation in such manner, or to such organization or organizations organized and operated exclusively for charitable, educational, religious or scientific purposes as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law), as the board of directors shall determine.

Any such assets not so disposed of shall be disposed of by the circuit court of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organization(s), as said court shall determine, which are organized and operated exclusively for such purposes.

501c3 APPLICATION FORMS

- Form SS4 - Employer Identification Number (EIN)
- Form 1023 – The Principal Application
- Schedules

Pages 32 – 57 will assist you in completing the forms listed above

APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER

In order to apply for a 501(c)(3) designation, a not-for-profit corporation will need an employer identification (EIN). The IRS will not consider an application that does not have an EIN even if the corporation has no employees and does not think it will ever have paid staff.

The SS-4 form is the application to be completed in order to receive the employer identification number. If a group needs the number quickly, it is possible to receive the number over the telephone. The telephone number for corporations filing the SS4 is 1-800-829-4933. However, the application should be completed before calling the IRS to request an employer identification number because they will ask for the information contained in the application. In addition, the SS-4 form will need to be filed with the IRS in order to maintain an active employer identification number assigned to the corporation.

When the application is completed it should be sent to:

Attention: EIN Operation
Philadelphia, PA 19255
Fax-TIN: 859-669-5760
File by phone at: 1-800-829-4933

FORM SS-4 APPLICATION

This is the same form all business or commercial entities need to complete in order to receive an employer identification number so there are a lot of questions that are not necessary for a not-for-profit to complete.

Questions 1 - 6 - This is the standard name and address section. It asks for the name and address of the applicant. Remember the applicant is the not-for-profit corporation so the name should read exactly the same as the name that appears on the Articles of Incorporation that was filed with the state of Missouri.

In question three the "care of" person should be the person responsible for taking care of the taxes for the corporation. It could be the treasurer. However, because there is turnover in the treasurer's position, **many times a not-for-profit will have someone either under contract or designated specifically to receive and manage tax information on behalf of the corporation.**

7. The principal officer should be someone from the board. The most appropriate person is usually the president or chairperson of the corporation. Whoever is listed in question 7 will also need to provide his/her social security number.

- 8a. Mark "Other nonprofit organization" and tell them what kind of a nonprofit corporation you are. Most non-profits are applying as general nonprofits, so they will simply write "general" in the blank space.
9. Mark "Other" and write, "creating a nonprofit" in the space provided.
10. The date the business started will be the date indicated on the Articles of Incorporation file with the State of Missouri.
11. Most not-for-profits will run their accounting year concurrent with the calendar year. If this is the case for your organization, write December as the closing month.
14. Check the box most appropriate or check other and in 3 or 4 words describe the purpose. For instance, a housing group may state its purpose as: to provide housing opportunities. Keep it simple and specific. The corporation bylaws may be a helpful resource.
15. This question is not applicable to most not-for-profits. However, if an organization will be selling services or products identify the types of services provided such as housing, counseling, etc...
- 16a. In most cases the answer will be "no." Remember that this question refers to the not-for-profit entity, not the person who happens to be completing the application on behalf of the organization. However, if an organization is older and are uncertain whether or not an employer identification number was issued in the past, call the number provided above, and ask them to search for an EIN number under the name of the corporation. This is a good idea a group has been an active corporation in Missouri for several years and has recently decided to file for 501(c)(3) status.

If answering 16a YES complete questions 16b and 16c.

Where they ask for the name and title they are asking for the name of the person who is completing the application on behalf of the corporation and his/her title with the corporation. Sign and date the application and send it to the address for the Internal Revenue Service Center provided above.

Remember, even if an organization telephones the IRS to file the application and receives the number over the phone, the application must still be mailed to the Internal Revenue Service Center at the above address.

Form **SS-4**

Application for Employer Identification Number

OMB No. 1545-0003

(Rev. February 2006)
Department of the Treasury
Internal Revenue Service

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

▶ See separate instructions for each line. ▶ Keep a copy for your records.

EIN

Type or print clearly.	1 Legal name of entity (or individual) for whom the EIN is being requested	
	2 Trade name of business (if different from name on line 1)	3 Executor, administrator, trustee, "care of" name
	4a Mailing address (room, apt., suite no. and street, or P.O. box)	5a Street address (if different) (Do not enter a P.O. box.)
	4b City, state, and ZIP code	5b City, state, and ZIP code
	6 County and state where principal business is located	
	7a Name of principal officer, general partner, grantor, owner, or trustee	7b SSN, ITIN, or EIN

8a Type of entity (check only one box)

<input type="checkbox"/> Sole proprietor (SSN) _____	<input type="checkbox"/> Estate (SSN of decedent) _____
<input type="checkbox"/> Partnership	<input type="checkbox"/> Plan administrator (SSN) _____
<input type="checkbox"/> Corporation (enter form number to be filed) ▶ _____	<input type="checkbox"/> Trust (SSN of grantor) _____
<input type="checkbox"/> Personal service corporation	<input type="checkbox"/> National Guard <input type="checkbox"/> State/local government
<input type="checkbox"/> Church or church-controlled organization	<input type="checkbox"/> Farmers' cooperative <input type="checkbox"/> Federal government/military
<input type="checkbox"/> Other nonprofit organization (specify) ▶ _____	<input type="checkbox"/> REMIC <input type="checkbox"/> Indian tribal governments/enterprises
<input type="checkbox"/> Other (specify) ▶ _____	Group Exemption Number (GEN) ▶ _____

8b If a corporation, name the state or foreign country (if applicable) where incorporated

State	Foreign country
-------	-----------------

9 Reason for applying (check only one box)

<input type="checkbox"/> Started new business (specify type) ▶ _____	<input type="checkbox"/> Banking purpose (specify purpose) ▶ _____
<input type="checkbox"/> Hired employees (Check the box and see line 12.)	<input type="checkbox"/> Changed type of organization (specify new type) ▶ _____
<input type="checkbox"/> Compliance with IRS withholding regulations	<input type="checkbox"/> Purchased or acquired business
<input type="checkbox"/> Other (specify) ▶ _____	<input type="checkbox"/> Created trust (specify type) ▶ _____
	<input type="checkbox"/> Create a pension plan (specify type) ▶ _____

10 Date business started or acquired (month, day, year). See instructions. **11** Closing month of accounting year

12 First date wages or annuities were paid (month, day, year). **Note.** If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year) ▶

13 Highest number of employees expected in the next 12 months (enter -0- if none).

Agricultural	Household	Other
--------------	-----------	-------

Do you expect to have \$1,000 or less in employment tax liability for the calendar year? Yes No. (If you expect to pay \$4,000 or less in wages, you can mark yes.)

14 Check **one** box that best describes the principal activity of your business.

<input type="checkbox"/> Construction	<input type="checkbox"/> Rental & leasing	<input type="checkbox"/> Transportation & warehousing	<input type="checkbox"/> Health care & social assistance	<input type="checkbox"/> Wholesale-agent/broker
<input type="checkbox"/> Real estate	<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Finance & insurance	<input type="checkbox"/> Accommodation & food service	<input type="checkbox"/> Wholesale-other
			<input type="checkbox"/> Other (specify)	<input type="checkbox"/> Retail

15 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.

16a Has the applicant ever applied for an employer identification number for this or any other business? Yes No
Note. If "Yes," please complete lines 16b and 16c.

16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.

Legal name ▶	Trade name ▶
--------------	--------------

16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.

Approximate date when filed (mo., day, year)	City and state where filed	Previous EIN
--	----------------------------	--------------

Third Party Designee	Complete this section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.	
	Designee's name	Designee's telephone number (include area code) () ()
	Address and ZIP code	Designee's fax number (include area code) () ()

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

Name and title (type or print clearly) ▶	Applicant's telephone number (include area code) () ()
Signature ▶	Applicant's fax number (include area code) () ()
Date ▶	

FORM 1023 APPLICATION

Form 1023 is the principle application for 501(c)(3). Similar applications are used for other designations. However, the Internal Revenue Service reviews the application for 501(c)(3) differently because they have a different purpose than other not-for-profit organizations. Remember, the IRS wants to see an organization with an educational, charitable or religious purpose.

The purpose of this section will not be to review each question. There are too many and most are self-explanatory. In our review of this application we will look at the sections and questions that are not as easy to interpret and try to clarify them.

Part I: Identification Of Application

1. The name of the organization should be written exactly the same as it is on the Articles of Incorporation, the bylaws and the SS-4 form.
2. It is a good idea to put someone's name here. This should be a person who has been involved in the preparation of the application. They will serve as the contact person for the IRS; the person who receives the official correspondence. In most cases, during the process of application review, the IRS agent will send a letter asking for clarification or supporting documents for the application. The person listed in 2 should be someone who can answer an IRS agent's questions or find the information they are requesting. There is usually a deadline from the IRS for a response from the organization, so it is very important that the person listed here is intimately involved in the process.
3. This should be the official address of the corporation. It is the location where the IRS will send their correspondence so it is important to make sure that whoever checks the mail at the address listed understands the importance of correspondence from the IRS regarding the status of this application.
5. This should be the same month reported in the application (SS4) for the Employer Identification Number.
6. This may be the same person listed in question 2. The person listed here should be someone who can answer questions about the application over the telephone. It is unlikely that the IRS will contact your organization by telephone for clarification on an aspect of your application but it's good to be safe. Usually they will send a letter to the person listed in 2 requesting additional information.
7. If you an attorney, accountant or other professional was hired to manage the incorporation process check "yes" and provide the contact information and fees.
10. **Most not-for-profit corporations will need to annually file Form 990 federal tax returns with the IRS. If an organization has gross revenues of \$25,000 or less they will not have to file a form 990. However, they will still mark "no" on this question because in years when revenues exceed \$25,000 a form 990 will need to be filed. Marking "yes" means that there are other reasons for not filing a 990. The IRS would like an explanation of those reasons. Most organizations will mark "no" even if in that tax year they do not meet the revenue minimum.**

A 990 is similar to filing a personal tax return except that the forms are simpler and not-for-profit organizations generally won't have to pay a tax. One of the main purposes of the Form 990 is to make it possible for the IRS to review the sources of income and expenses of the organization in order to see whether or not the not-for-profit organization still meets the criteria for a 501(c)(3).
11. This is the date reported on the Articles of Incorporation that were received from the Missouri Secretary of State when the application for not-for-profit status in Missouri was filed.

It is not normally advisable to file an application for a 501 (c)(3) unless there is a set of bylaws describing the organization and its functions. This is particularly true if the organization will manage resources. In the bylaws the organization can clearly describe how resources will be managed on behalf of the corporation. Without bylaws it may be difficult to maintain the accountability necessary to manage the record keeping necessary for a 501 (c)(3).

Form **1023**
 (Rev. June 2006)
 Department of the Treasury
 Internal Revenue Service

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

OMB No. 1545-0056

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

Use the instructions to complete this application and for a definition of all **bold** items. For additional help, call IRS Exempt Organizations Customer Account Services toll-free at 1-877-829-5500. Visit our website at www.irs.gov for forms and publications. If the required information and documents are not submitted with payment of the appropriate user fee, the application may be returned to you.

Attach additional sheets to this application if you need more space to answer fully. Put your name and EIN on each sheet and identify each answer by Part and line number. Complete Parts I - XI of Form 1023 and submit only those Schedules (A through H) that apply to you.

Part I Identification of Applicant

1 Full name of organization (exactly as it appears in your organizing document)		2 c/o Name (if applicable)	
3 Mailing address (Number and street) (see instructions)	Room/Suite	4 Employer Identification Number (EIN)	
City or town, state or country, and ZIP + 4		5 Month the annual accounting period ends (01 - 12)	
6 Primary contact (officer, director, trustee, or authorized representative) a Name:		b Phone:	
		c Fax: (optional)	
7 Are you represented by an authorized representative, such as an attorney or accountant? If "Yes," provide the authorized representative's name, and the name and address of the authorized representative's firm. Include a completed Form 2848, <i>Power of Attorney and Declaration of Representative</i> , with your application if you would like us to communicate with your representative.		<input type="checkbox"/> Yes <input type="checkbox"/> No	
8 Was a person who is not one of your officers, directors, trustees, employees, or an authorized representative listed in line 7, paid, or promised payment, to help plan, manage, or advise you about the structure or activities of your organization, or about your financial or tax matters? If "Yes," provide the person's name, the name and address of the person's firm, the amounts paid or promised to be paid, and describe that person's role.		<input type="checkbox"/> Yes <input type="checkbox"/> No	
9a Organization's website:			
b Organization's email: (optional)			
10 Certain organizations are not required to file an information return (Form 990 or Form 990-EZ). If you are granted tax-exemption, are you claiming to be excused from filing Form 990 or Form 990-EZ? If "Yes," explain. See the instructions for a description of organizations not required to file Form 990 or Form 990-EZ.		<input type="checkbox"/> Yes <input type="checkbox"/> No	
11 Date incorporated if a corporation, or formed, if other than a corporation. (MM/DD/YYYY) / /			
12 Were you formed under the laws of a foreign country ? If "Yes," state the country.		<input type="checkbox"/> Yes <input type="checkbox"/> No	

SAMPLE - DO NOT USE THIS FORM

For Paperwork Reduction Act Notice, see page 24 of the instructions.

Cat. No. 17133K

Form **1023** (Rev. 6-2006)

Part II: Organizational Structure

1. Most nonprofits want to organize as corporations. On occasion if the group is more of an association or trust it may want to say no on this question and check yes on questions 3 or 4. However, if a group is setting up an organization to implement community-based activities, provide a service or education program then they will want to incorporate as a corporation.
2. Most groups using this guidebook are not setting up limited liability corporations. For those interested in this type of organizational structure it is advisable to seek the advice of legal counsel.
3. In Missouri this question can confuse some groups because the incorporation process is the same for associations as it is for organizations. However, if a group is a formal association like a homeowner's association they may want to check "yes" here instead of in question 1.
4. If the organization is setting itself up to manage a sum of money on behalf of another nonprofit or agency then this might be an option. However, this is another situation where it would be important to consult with legal counsel.
5. There will need to be an adopted set of bylaws included with the application. Make certain they include the date the bylaws were adopted and include the signatures of the board members who voted to adopt them.

Part III: Required Provisions in Organizing Documents

1. This question refers to the purpose clause discussed earlier in the Articles of Incorporation (page 28, question 8). The IRS has specific language regarding the purpose of the organization that needs to be included in the organizing documents. In addition to the Articles of Incorporation the bylaws should also include the purpose statement. Identify where in the bylaws by page, article, section and paragraph.
2. This question refers to the dissolution clause discussed earlier in the Articles of Incorporation (page 29, question 7). The IRS has specific language regarding the dissolution of the organization that needs to be included in the organizing documents. Again, it is important to have this same dissolution clause included in the bylaws. Identify where in the bylaws by page, article, section and paragraph. In 2c they ask about whether or not the organization is

relying on state law for the dissolution clause. This is not a good option in Missouri.

Part IV: Narrative Description of Activities

The narrative section causes many people a lot of stress in completing the application. The important thing is to describe the major activities as clearly as possible and to send the application to the IRS. It is not a contest, so there are no extra points for providing lots of details regarding the activities of your organization. Keep in mind that if they want more information they will ask, and they will usually be specific about what they want. It is best to be brief and to the point.

When completing the narrative focus on the activities that define the organization. For example, if a homeless shelter is applying for a 501 (c)(3), it is important that they detail the activities and services that they are providing the homeless. If the shelter also helped organize a neighborhood clean-up day once or twice but does not do it as a regular part of its mission, then it is not important to include. Focus on describing those activities directly related to the mission of the organization and where the resources of the organization are invested. For most small, fairly new nonprofits this should be done in one or two pages.

Part V: Compensation and Other Financial Arrangements

- 1a. Compensation of officers, directors, and trustees is a touchy subject with the IRS. As a general rule it is not a good idea to pay board members to be on the board. They are supposed to be providing a service to the community. However, if you a board member is also a lawyer and they are being paid for their services as an attorney they should be included here. If board members are also staff and getting paid they should be listed along with their compensation. The IRS does not like it when nonprofits are paying members of the board. Sometimes an organization is founded by someone and they serve as board members, often as the president. When resources become available they want to be the paid Executive Director. In these situations it is often best to resign from the board and take the staff position. It is much better for the organization to keep leadership of the organization in the form of the officers and board separate from staffing.

Part II Organizational Structure

You must be a corporation (including a limited liability company), an unincorporated association, or a trust to be tax exempt. (See instructions.) **DO NOT file this form unless you can check "Yes" on lines 1, 2, 3, or 4.**

- 1 Are you a **corporation**? If "Yes," attach a copy of your articles of incorporation showing **certification of filing** with the appropriate state agency. Include copies of any amendments to your articles and be sure they also show state filing certification. Yes No
- 2 Are you a **limited liability company (LLC)**? If "Yes," attach a copy of your articles of organization showing certification of filing with the appropriate state agency. Also, if you adopted an operating agreement, attach a copy. Include copies of any amendments to your articles and be sure they show state filing certification. Refer to the instructions for circumstances when an LLC should not file its own exemption application. Yes No
- 3 Are you an **unincorporated association**? If "Yes," attach a copy of your articles of association, constitution, or other similar organizing document that is dated and includes at least two signatures. Include signed and dated copies of any amendments. Yes No
- 4a Are you a **trust**? If "Yes," attach a signed and dated copy of your trust agreement. Include signed and dated copies of any amendments. Yes No
- b Have you been funded? If "No," explain how you are formed without anything of value placed in trust. Yes No
- 5 Have you adopted **bylaws**? If "Yes," attach a current copy showing date of adoption. If "No," explain how your officers, directors, or trustees are selected. Yes No

Part III Required Provisions in Your Organizing Document

The following questions are designed to ensure that when you file this application, your organizing document contains the required provisions to meet the organizational test under section 501(c)(3). Unless you can check the boxes in both lines 1 and 2, your organizing document does not meet the organizational test. **DO NOT file this application until you have amended your organizing document.** Submit your original and amended organizing documents (showing state filing certification if you are a corporation or an LLC) with your application.

- 1 Section 501(c)(3) requires that your organizing document state your exempt purpose(s), such as charitable, religious, educational, and/or scientific purposes. Check the box to confirm that your organizing document meets this requirement. Describe specifically where your organizing document meets this requirement, such as a reference to a particular article or section in your organizing document. Refer to the instructions for exempt purpose language. Location of Purpose Clause (Page, Article, and Paragraph) _____
- 2a Section 501(c)(3) requires that upon dissolution of your organization, your remaining assets must be used exclusively for exempt purposes, such as charitable, religious, educational, and/or scientific purposes. Check the box on line 2a to confirm that your organizing document meets this requirement by a specific provision for the distribution of assets upon dissolution. If you rely on state law for your dissolution provision, do not check the box on line 2a and go to line 2c.
- 2b If you checked the box on line 2a, specify the location of your dissolution clause (Page, Article, and Paragraph). Do not complete line 2c if you checked box 2a. _____
- 2c See the instructions for information about the operation of state law in your particular state. Check this box if you rely on operation of state law for your dissolution provision and indicate the state: _____

Part IV Narrative Description of Your Activities

Using an attachment, describe your *past, present, and planned* activities in a narrative. If you believe that you have already provided some of this information in response to other parts of this application, you may summarize that information here and refer to the specific parts of the application for supporting details. You may also attach representative copies of newsletters, brochures, or similar documents for supporting details to this narrative. Remember that if this application is approved, it will be open for public inspection. Therefore, your narrative description of activities should be thorough and accurate. Refer to the instructions for information that must be included in your description.

Part V Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors

- 1a List the names, titles, and mailing addresses of all of your officers, directors, and trustees. For each person listed, state their total annual **compensation**, or proposed compensation, for all services to the organization, whether as an officer, employee, or other position. Use actual figures, if available. Enter "none" if no compensation is or will be paid. If additional space is needed, attach a separate sheet. Refer to the instructions for information on what to include as compensation.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)

Part V: Compensation and Other Financial Arrangements (continued)

1b. Organizations without employees will find the rest of this section easy. If there are no employees or if there are no employees receiving \$50,000 or more then skip to question 2. If there is only one then list one. This should not include anyone listed in 1a. This should only include the paid employees who are not directors.

1c. In this case they want to identify the contractors or consultants hired to provide services. This would include professional services to the organization such as accountants or lawyers as well as consultants providing services directly related to the organizational purpose. For example, if an organization were to form a low-income housing program and they paid a local building company to manage construction projects. This would not be a staff position but someone who works on behalf of the organization. Remember you only list those who receive \$50,000 a year or more in compensation from the organization. If there are none leave it blank.

2. These questions as well as 3 and 4 explore the financial relationships between employees and board members. As a rule they look closely at the financial relationship between board members and staff. The IRS is looking for potential conflicts of interest and how these conflicts would be addressed in cases where there are board members, who are also related to staff, getting paid by the organization. If a group checks “yes” on any of these questions it does not mean that they won’t be approved for a 501(c)(3). It does mean that the IRS will likely have additional questions when they review the application. It is a good idea to be prepared to explain the different financial relationships that are disclosed in the application.

3. The first question asks for a list of the people that are mentioned in questions 1a – 1c. If no one is listed in 1a – 1c leave this blank. The second question refers to people who might work for the organization and may also work for other organizations that this organization may control. For example if a community betterment group is trying to get a 501(c)(3) and the local chamber of commerce, which is not a 501(c)(3), was instrumental in the formation of the community betterment organization they may decide to maintain a formal tie to the new organization. The community betterment organization may have many of the same board members as the chamber or the chamber may actually appoint the board members to the community

betterment organization. These organizations may also share employees. The chamber may have an employee 50% and the community betterment group may have the same employee the other 50%. If this describes how the organization plans to do business then it will be necessary to explain how these relationships work. Often what the IRS is concerned about is whether or not a group is able to document that if someone works for the 501(c)(3) organization as a half time employee that the organization is able to accurately document the time the employee works for the 501(c)(3) to ensure the work of the employees being paid by the 501(c)(3) organization are focused on their exempt purposes.

4. In the IRS instructions, Appendix A (pages 25-26) is a draft sample of a conflict of interest policy. It is a good idea for an organization to adopt a conflict of interest policy. 4a) The conflict of interest policy included in the IRS instructions may be a little extensive for many small organizations but it can be adapted by an organization. It is a good idea to follow a conflict of interest policy when developing compensation arrangements. If there is not a conflict of interest policy on should be developed focusing on policies for awarding compensation. 4b) Approve all compensation arrangements before making payment. 4c) It is always a good idea to document and date the terms of compensation arrangements. It is actually a good idea to adopt all the recommendations in question 4.

These questions explore the financial relationships between employees and board members...The IRS is looking for potential conflicts of interest and how they would be addressed if a board member is also related to staff getting paid by the organization.

Part V Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors (Continued)

b List the names, titles, and mailing addresses of each of your five highest compensated employees who receive or will receive compensation of more than \$50,000 per year. Use the actual figure, if available. Refer to the instructions for information on what to include as compensation. Do not include officers, directors, or trustees listed in line 1a.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)

c List the names, names of businesses, and mailing addresses of your five highest compensated **independent contractors** that receive or will receive compensation of more than \$50,000 per year. Use the actual figure, if available. Refer to the instructions for information on what to include as compensation.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)

The following "Yes" or "No" questions relate to *past, present, or planned* relationships, transactions, or agreements with your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in lines 1a, 1b, and 1c.

- 2a** Are any of your officers, directors, or trustees **related** to each other through **family or business relationships**? If "Yes," identify the individuals and explain the relationship. Yes No
- b** Do you have a business relationship with any of your officers, directors, or trustees other than through their position as an officer, director, or trustee? If "Yes," identify the individuals and describe the business relationship with each of your officers, directors, or trustees. Yes No
- c** Are any of your officers, directors, or trustees related to your highest compensated employees or highest compensated independent contractors listed on lines 1b or 1c through family or business relationships? If "Yes," identify the individuals and explain the relationship. Yes No
- 3a** For each of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, or 1c, attach a list showing their name, qualifications, average hours worked, and duties.
- b** Do any of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, or 1c receive compensation from any other organizations, whether tax exempt or taxable, that are related to you through **common control**? If "Yes," identify the individuals, explain the relationship between you and the other organization, and describe the compensation arrangement. Yes No
- 4** In establishing the compensation for your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, and 1c, the following practices are recommended, although they are not required to obtain exemption. Answer "Yes" to all the practices you use.
- a** Do you or will the individuals that approve compensation arrangements follow a conflict of interest policy? Yes No
- b** Do you or will you approve compensation arrangements in advance of paying compensation? Yes No
- c** Do you or will you document in writing the date and terms of approved compensation arrangements? Yes No

Part V: Compensation and Other Financial Arrangements (continued)

5. The conflict of interest policy was a new requirement of the IRS included in the 2004 revision of the 1023 application and was retained in the 2006 revision. As noted on page 40, a sample conflict of interest statement is provided in the IRS instructions. A conflict of interest policy can be adopted by the board of directors at a regular meeting or it can be included in the organization's bylaws. My recommendation is to include the policy in your bylaws.
6. Non-fixed payments or bonuses are raises that are dependent on the discretion of the board of directors. They may include performance bonuses and other incentives that are offered by the board. Any type of payment or compensation that the board can make on its own discretion is a non-fixed payment.
7. The IRS is concerned about commercial relationships between the organization and those who might potentially gain from the financial relationship. In this section they want to know if such relationships exist—is the organization buying goods and services from any officers, directors, trustees, or employees or contractors? If so, how are they negotiating the terms of these relationships? What kinds of measures are they taking to make sure that someone affiliated with the organization and may potentially benefit financially from that relationship is not in a position to unduly use their influence with the organization for their own personal gain? How does the organization ensure that prices are fairly established and ensure the organization is able to maintain its independence and avoid financial conflicts of interest?
8. The questions here are very similar to the questions in number 7 except they refer to leases and contracts. If this is a situation the organization has faced in the past and/or may you may be facing, it is a good idea to share copies of leases and contracts that have been used in the past or share a draft of something that is being considered for the future.

What kinds of measures is the organization taking to ensure that someone affiliated with the organization and may potentially benefit financially from that relationship is not in a position to unduly use their influence with the organization for their own personal gain?

Part V Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors (Continued)

- d Do you or will you record in writing the decision made by each individual who decided or voted on compensation arrangements? Yes No
- e Do you or will you approve compensation arrangements based on information about compensation paid by **similarly situated** taxable or tax-exempt organizations for similar services, current compensation surveys compiled by independent firms, or actual written offers from similarly situated organizations? Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. Yes No
- f Do you or will you record in writing both the information on which you relied to base your decision and its source? Yes No
- g If you answered "No" to any item on lines 4a through 4f, describe how you set compensation that is **reasonable** for your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in Part V, lines 1a, 1b, and 1c.
-
- 5a Have you adopted a **conflict of interest policy** consistent with the sample conflict of interest policy in Appendix A to the instructions? If "Yes," provide a copy of the policy and explain how the policy has been adopted, such as by resolution of your governing board. If "No," answer lines 5b and 5c. Yes No
- b What procedures will you follow to assure that persons who have a conflict of interest will not have influence over you for setting their own compensation?
- c What procedures will you follow to assure that persons who have a conflict of interest will not have influence over you regarding business deals with themselves?
- Note:** A conflict of interest policy is recommended though it is not required to obtain exemption. Hospitals, see Schedule C, Section I, line 14.
-
- 6a Do you or will you compensate any of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in lines 1a, 1b, or 1c through **non-fixed payments**, such as discretionary bonuses or revenue-based payments? If "Yes," describe all non-fixed compensation arrangements, including how the amounts are determined, who is eligible for such arrangements, whether you place a limitation on total compensation, and how you determine or will determine that you pay no more than reasonable compensation for services. Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. Yes No
- b Do you or will you compensate any of your employees, other than your officers, directors, trustees, or your five highest compensated employees who receive or will receive compensation of more than \$50,000 per year, through non-fixed payments, such as discretionary bonuses or revenue-based payments? If "Yes," describe all non-fixed compensation arrangements, including how the amounts are or will be determined, who is or will be eligible for such arrangements, whether you place or will place a limitation on total compensation, and how you determine or will determine that you pay no more than reasonable compensation for services. Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. Yes No
-
- 7a Do you or will you purchase any goods, services, or assets from any of your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," describe any such purchase that you made or intend to make, from whom you make or will make such purchases, how the terms are or will be negotiated at **arm's length**, and explain how you determine or will determine that you pay no more than **fair market value**. Attach copies of any written contracts or other agreements relating to such purchases. Yes No
- b Do you or will you sell any goods, services, or assets to any of your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," describe any such sales that you made or intend to make, to whom you make or will make such sales, how the terms are or will be negotiated at arm's length, and explain how you determine or will determine you are or will be paid at least fair market value. Attach copies of any written contracts or other agreements relating to such sales. Yes No
-
- 8a Do you or will you have any leases, contracts, loans, or other agreements with your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," provide the information requested in lines 8b through 8f. Yes No
- b Describe any written or oral arrangements that you made or intend to make.
- c Identify with whom you have or will have such arrangements.
- d Explain how the terms are or will be negotiated at arm's length.
- e Explain how you determine you pay no more than fair market value or you are paid at least fair market value.
- f Attach copies of any signed leases, contracts, loans, or other agreements relating to such arrangements.
-
- 9a Do you or will you have any leases, contracts, loans, or other agreements with any organization in which any of your officers, directors, or trustees are also officers, directors, or trustees, or in which any individual officer, director, or trustee owns more than a 35% interest? If "Yes," provide the information requested in lines 9b through 9f. Yes No

Part VI: Members and Other Individuals and Organizations that Receive Benefits

1. Many nonprofits offer direct services or products to people. These may include services like counseling or products like housing that will benefit individuals. The IRS wants a description of the programs where goods and services are offered directly to individuals. If no direct services or goods are provided to individuals mark this question “no”.
2. In this case the IRS wants to know whether or not services are offered to other organizations. If so, they should be to other 501(c)(3) organizations. Resources of 501(c)(3) organizations should only be used to support the purposes of a charitable organization. Contributions to other organizations must advance charitable, educational, religious or scientific purposes. Only select “yes” if the organization is providing direct services to another organization.
3. The IRS wants to ensure there is no conflict of interest in terms of how the organization is using its resources. Some charitable organizations provide services to their members or directors but typically these board members are also members of the community the organization is trying to serve. Make these relationships are explained including how people are chosen to participate in programs.

Part VII: History

1. It is not uncommon for a nonprofit to start as an offshoot of another organization. Many community nonprofits start out as a committee of a Chamber of Commerce or other community organization. Some, such as a Chamber of Commerce, may not be 501(c)(3) organizations. If the organization started this way then explain how that happened. Another scenario occurs when an organization that takes over another organization. For example, I once worked with a domestic violence prevention organization that was an informal regional group looking to establish a shelter in one of their communities. An existing shelter in one of the communities was going out of business so rather than start over they took over the operation of the shelter and reorganized as a regional entity. They would need to explain how this happened. Finally, occasionally organizations organized for-profit want to re-organize as nonprofits. Often this is done when a group wants to transfer a name or other assets to the nonprofit. I worked with a group that had started out a for-profit

art business that later decided to become a nonprofit educational organization focused on using the arts as an educational tool in the community. In any of these types of relationships it is important to explain how the organization evolved to where they want to be a 501(c)(3) nonprofit. In this situation it is important to get professional legal and accounting advice and complete Schedule G. This guidebook reviews Schedule D on pages 64 & 65. At the very least have an accountant or an attorney review the application before submitting it to the IRS.

2. This is a tricky question for groups that have existed as a nonprofit for a long time but never formally incorporated. That is fine. The “27 month” countdown refers to the date that the organization was formally incorporated with the State of Missouri. Refer to the Articles of Incorporation to see when the organization was formally incorporated. If older than 27 months do not be too alarmed. It is still likely the organization will be able to qualify. Schedule E is designed to help groups figure this out. This guidebook goes through Schedule E on pages 60 through 63.

Part VIII: Specific Activities

1. Charitable organizations are not permitted to use a significant portion of their resources for political campaigns. How much is significant? There is no definitive answer so it is best for groups whose primary purpose is charitable to avoid political campaigning as much as possible. Other nonprofit classifications are more suitable for those who want to engage in campaigning or political advocacy work. Question 2 is very similar but focuses on lobbying efforts. The IRS scrutinizes lobbying carefully so if the organization will be engaged in campaigning or lobbying get legal advice as to how much and what type is appropriate.
3. Bingo is a common fundraising activity for some nonprofits. The IRS wants to better understand the business relationships that manage these activities and ensure that they are accounted for in the financial records of the organization.

Part V Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors (Continued)

- b Describe any written or oral arrangements you made or intend to make.
- c Identify with whom you have or will have such arrangements.
- d Explain how the terms are or will be negotiated at arm's length.
- e Explain how you determine or will determine you pay no more than fair market value or that you are paid at least fair market value.
- f Attach a copy of any signed leases, contracts, loans, or other agreements relating to such arrangements.

Part VI Your Members and Other Individuals and Organizations That Receive Benefits From You

The following "Yes" or "No" questions relate to goods, services, and funds you provide to individuals and organizations as part of your activities. Your answers should pertain to *past*, *present*, and *planned* activities. (See instructions.)

- 1a In carrying out your exempt purposes, do you provide goods, services, or funds to individuals? If "Yes," describe each program that provides goods, services, or funds to individuals. Yes No
- b In carrying out your exempt purposes, do you provide goods, services, or funds to organizations? If "Yes," describe each program that provides goods, services, or funds to organizations. Yes No
- 2 Do any of your programs limit the provision of goods, services, or funds to a specific individual or group of specific individuals? For example, answer "Yes," if goods, services, or funds are provided only for a particular individual, your members, individuals who work for a particular employer, or graduates of a particular school. If "Yes," explain the limitation and how recipients are selected for each program. Yes No
- 3 Do any individuals who receive goods, services, or funds through your programs have a family or business relationship with any officer, director, trustee, or with any of your highest compensated employees or highest compensated independent contractors listed in Part V, lines 1a, 1b, and 1c? If "Yes," explain how these related individuals are eligible for goods, services, or funds. Yes No

Part VII Your History

The following "Yes" or "No" questions relate to your history. (See instructions.)

- 1 Are you a **successor** to another organization? Answer "Yes," if you have taken over or will take over the activities of another organization; you took over 25% or more of the fair market value of the net assets of another organization; or you were established upon the conversion of an organization from for-profit to non-profit status. If "Yes," complete Schedule G. Yes No
- 2 Are you submitting this application more than 27 months after the end of the month in which you were legally formed? If "Yes," complete Schedule E. Yes No

Part VIII Your Specific Activities

The following "Yes" or "No" questions relate to specific activities that you may conduct. Check the appropriate box. Your answers should pertain to *past*, *present*, and *planned* activities. (See instructions.)

- 1 Do you support or oppose candidates in **political campaigns** in any way? If "Yes," explain. Yes No
- 2a Do you attempt to **influence legislation**? If "Yes," explain how you attempt to influence legislation and complete line 2b. If "No," go to line 3a. Yes No
- b Have you made or are you making an **election** to have your legislative activities measured by expenditures by filing Form 5768? If "Yes," attach a copy of the Form 5768 that was already filed or attach a completed Form 5768 that you are filing with this application. If "No," describe whether your attempts to influence legislation are a substantial part of your activities. Include the time and money spent on your attempts to influence legislation as compared to your total activities. Yes No
- 3a Do you or will you operate bingo or **gaming** activities? If "Yes," describe who conducts them, and list all revenue received or expected to be received and expenses paid or expected to be paid in operating these activities. **Revenue and expenses** should be provided for the time periods specified in Part IX, Financial Data. Yes No
- b Do you or will you enter into contracts or other agreements with individuals or organizations to conduct bingo or gaming for you? If "Yes," describe any written or oral arrangements that you made or intend to make, identify with whom you have or will have such arrangements, explain how the terms are or will be negotiated at arm's length, and explain how you determine or will determine you pay no more than fair market value or you will be paid at least fair market value. Attach copies or any written contracts or other agreements relating to such arrangements. Yes No
- c List the states and local jurisdictions, including Indian Reservations, in which you conduct or will conduct gaming or bingo.

Part VIII: Specific Activities (continued)

4. The fundraising section is focused on two elements. The first is the type of fundraising the organization is conducting or intend to conduct and the second is where the fundraising will be conducted. 4a) It is not a good idea to check all of the options in 4a unless actively engaged in all the strategies. Only select those strategies currently being used and/or are certain you will be developed in the next year or two. The IRS wants a description of each program. For example, a mail solicitation program will include a description of who is targeted for the solicitation, how the solicitation list was developed, how often letters are sent, and how much income is expected to result. This type of description is necessary for each item selected. Include the descriptions as an attachment. 4b) is interested in how consultants are paid. The IRS may frown on arrangements where the consultant receives a percentage of the funds raised or grant dollars generated. If the use of grant writers is anticipated avoid grant writers who charge a percentage of the grant as their fee. There are serious ethical issues in dealing with this type of consultant. 4c) is not interested in groups who may be current or future collaborators. The IRS is concerned about other organizations that the organization may be raising funds to support. There are two issues. One is they want to ensure that the organization is not trying to set up a nonprofit corporation when it should be a foundation and the other is to ensure that if the organization is raising funds another group that the organization has a way to ensure the resources are used for charitable purposes that meet the guidelines of 501(c)(3). 4d) This question is interested in the places where fundraising will occur. In this case focus on the places the organization will concentrate their efforts. If you are the organization is locally focused then it is likely to focus its activities locally. If unsure, list only those places where there is some certainty that fundraising will occur. 4e) This is a good idea—especially if the donor wants to know how their money is being used. A separate account (at least on sizable sums of money) may facilitate greater accountability.
5. Some charitable organizations are affiliated with government but most are not. There are groups like community centers and educational institutions that are 501(c)(3) and receive tax revenues to support their efforts. Sometimes government representatives are included on the board of directors. If there is a formal relationship with any unit of government then describe that relationship.
6. Economic development is a very tough sell for the IRS because most often the direct benefits of economic development activities go to the developer. The community benefits in that there may be new jobs and more dollars circulating in the community but the primary beneficiary is normally the developer. Organizations planning to do economic development work there have very little chance to receive 501(c)(3) designation. Some economic development activities such as micro-lending programs or low-income housing developments that provide services or opportunities directly to low income people or protected classes are also considered charitable activities. Other economic development activities that serve low-income communities may also be eligible. If an organization is engaged in development and they are not sure whether their activities are economic development it is always a good idea to check with someone regarding whether those activities are appropriate for a 501(c)(3).
7. These questions are similar to those in section V and are aimed at identifying conflicts of interest. Often newer organizations will not own facilities so these questions are a moot point. However, if a group is purchasing, renovating, or building a facility they will need to think about how they select people to operate the facility if it won't be run directly by the organization. It is important to be sure that there is no conflict of interest raised in the selection or contracting process.
8. Most new organizations have no idea if they will be engaging in joint ventures. If a group is not sure at the time they file then answer this question "no" because to the best of their knowledge they will not be in a joint venture.
9. Keep in mind that there are often state and local laws governing the provision of childcare. If a group is considering a childcare component to their program they may want to seek legal assistance to make sure they comply with all state and local laws
10. If unsure at the time of incorporation then answer this question "no". If a group is considering these activities then explain to the IRS the business elements of the enterprise.

Part VIII Your Specific Activities (Continued)

- 4a** Do you or will you undertake **fundraising**? If "Yes," check all the fundraising programs you do or will conduct. (See instructions.) **Yes** **No**
- | | |
|---|--|
| <input type="checkbox"/> mail solicitations | <input type="checkbox"/> phone solicitations |
| <input type="checkbox"/> email solicitations | <input type="checkbox"/> accept donations on your website |
| <input type="checkbox"/> personal solicitations | <input type="checkbox"/> receive donations from another organization's website |
| <input type="checkbox"/> vehicle, boat, plane, or similar donations | <input type="checkbox"/> government grant solicitations |
| <input type="checkbox"/> foundation grant solicitations | <input type="checkbox"/> Other |

Attach a description of each fundraising program.

- b** Do you or will you have written or oral contracts with any individuals or organizations to raise funds for you? If "Yes," describe these activities. Include all revenue and expenses from these activities and state who conducts them. Revenue and expenses should be provided for the time periods specified in Part IX, Financial Data. Also, attach a copy of any contracts or agreements. **Yes** **No**
- c** Do you or will you engage in fundraising activities for other organizations? If "Yes," describe these arrangements. Include a description of the organizations for which you raise funds and attach copies of all contracts or agreements. **Yes** **No**
- d** List all states and local jurisdictions in which you conduct fundraising. For each state or local jurisdiction listed, specify whether you fundraise for your own organization, you fundraise for another organization, or another organization fundraises for you.
- e** Do you or will you maintain separate accounts for any contributor under which the contributor has the right to advise on the use or distribution of funds? Answer "Yes" if the donor may provide advice on the types of investments, distributions from the types of investments, or the distribution from the donor's contribution account. If "Yes," describe this program, including the type of advice that may be provided and submit copies of any written materials provided to donor. **Yes** **No**

5 Are you **affiliated** with a governmental unit? If "Yes," explain. **Yes** **No**

6a Do you or will you engage in **economic development**? If "Yes," describe your program. **Yes** **No**

b Describe in full who benefits from your economic development activities and how the activities promote exempt purposes.

7a Do or will persons other than your employees or volunteers **develop** your facilities? If "Yes," describe each facility, the role of the developer, and any business or family relationship(s) between the developer and your officers, directors, or trustees. **Yes** **No**

b Do or will persons other than your employees or volunteers **manage** your activities or facilities? If "Yes," describe each activity and facility, the role of the manager, and any business or family relationship(s) between the manager and your officers, directors, or trustees. **Yes** **No**

c If there is a business or family relationship between any manager or developer and your officers, directors, or trustees, identify the individuals, explain the relationship, describe how contracts are negotiated at arm's length so that you pay no more than fair market value, and submit a copy of any contracts or other agreements.

8 Do you or will you enter into **joint ventures**, including partnerships or **limited liability companies** treated as partnerships, in which you share profits and losses with partners other than section 501(c)(3) organizations? If "Yes," describe the activities of these joint ventures in which you participate. **Yes** **No**

9a Are you applying for exemption as a childcare organization under section 501(k)? If "Yes," answer lines 9b through 9d. If "No," go to line 10. **Yes** **No**

b Do you provide child care so that parents or caretakers of children you care for can be **gainfully employed** (see instructions)? If "No," explain how you qualify as a childcare organization described in section 501(k). **Yes** **No**

c Of the children for whom you provide child care, are 85% or more of them cared for by you to enable their parents or caretakers to be gainfully employed (see instructions)? If "No," explain how you qualify as a childcare organization described in section 501(k). **Yes** **No**

d Are your services available to the general public? If "No," describe the specific group of people for whom your activities are available. Also, see the instructions and explain how you qualify as a childcare organization described in section 501(k). **Yes** **No**

10 Do you or will you publish, own, or have rights in music, literature, tapes, artworks, choreography, scientific discoveries, or other **intellectual property**? If "Yes," explain. Describe who owns or will own any copyrights, patents, or trademarks, whether fees are or will be charged, how the fees are determined, and how any items are or will be produced, distributed, and marketed. **Yes** **No**

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Part VIII: Specific Activities (continued)

11. It is difficult for new organizations to know whether or not they will ever be in a position to receive property. Answer this question based on what is known to be true or expected. If there is any chance the organization will be accepting these types of contributions mark this “yes”.
12. Most community groups are not working in foreign countries. However, sometimes community organizations will participate in exchange programs or provide charity to communities abroad. If this is the case indicate which countries and the types of programs that are being considered.
13. Most nonprofits just getting started barely have enough money to pay their own bills so funding other organizations is a real stretch. However, some organizations form to set-up loan funds or grant programs. This question is focused on support to other organizations.

In some instances 501(c)(3) corporations are set up with relationships to other organizations. The IRS wants to understand how the relationship between this nonprofit and the organization being supported. The IRS wants to be sure that support for another organization will advance the purpose of a 501(c)(3) which must be educational, charitable, religious or scientific. A 501(c)(3) is not permitted to use their resources for other purposes so they want to know how the organization will ensure that support for another organization will advance those purposes. Most of the questions in this section are designed to explore the relationship to another organization and to ensure that the organization applying for 501(c)(3) status will be able to adequately document that their support will appropriately advance the purpose of a 501(c)(3). This situation is more common among 501(c)(3) organizations that are organizing themselves as foundations. However, some nonprofit organizations do support other organizations.

14. This question is similar to 13. The IRS has similar concerns to supporting foreign organizations. In fact, this situation is not too uncommon. Some nonprofit organizations will set-up programs to fund projects abroad. The purpose of these questions is to better understand the nature of the relationship with organizations abroad. If the organization is providing resources and grants to other organizations in foreign countries how do they ensure their resources still meet the guidelines of a 501(c)(3) corporation. Questions d, e, and f are focused on accountability.

They want to ensure that the organization is properly informing their contributors and that they are doing their homework on the organizations they are supporting. Some countries have nonprofit laws that are similar to the United States. However, the laws will vary greatly from place to place so it is important to do considerable homework on the groups that will be supported and put in place accountability measures that ensure the resources are being used for exempt purposes.

The IRS wants to be sure that support for another organization will advance the purpose of a 501(c)(3) which must be educational, charitable, religious or scientific.

Part VIII Your Specific Activities (Continued)

- 11 Do you or will you accept contributions of: real property; conservation easements; closely held securities; intellectual property such as patents, trademarks, and copyrights; works of music or art; licenses; royalties; automobiles, boats, planes, or other vehicles; or collectibles of any type? If "Yes," describe each type of contribution, any conditions imposed by the donor on the contribution, and any agreements with the donor regarding the contribution. Yes No
-
- 12a Do you or will you operate in a **foreign country** or **countries**? If "Yes," answer lines 12b through 12d. If "No," go to line 13a. Yes No
- b Name the foreign countries and regions within the countries in which you operate.
- c Describe your operations in each country and region in which you operate.
- d Describe how your operations in each country and region further your exempt purposes.
-
- 13a Do you or will you make grants, loans, or other distributions to organization(s)? If "Yes," answer lines 13b through 13g. If "No," go to line 14a. Yes No
- b Describe how your grants, loans, or other distributions to organizations further your exempt purposes.
- c Do you have written contracts with each of these organizations? If "Yes," attach a copy of each contract. Yes No
- d Identify each recipient organization and any **relationship** between you and the recipient organization.
- e Describe the records you keep with respect to the grants, loans, or other distributions you make.
- f Describe your selection process, including whether you do any of the following:
- (i) Do you require an application form? If "Yes," attach a copy of the form. Yes No
- (ii) Do you require a grant proposal? If "Yes," describe whether the grant proposal specifies your responsibilities and those of the grantee, obligates the grantee to use the grant funds only for the purposes for which the grant was made, provides for periodic written reports concerning the use of grant funds, requires a final written report and an accounting of how grant funds were used, and acknowledges your authority to withhold and/or recover grant funds in case such funds are, or appear to be, misused. Yes No
- g Describe your procedures for oversight of distributions that assure you the resources are used to further your exempt purposes, including whether you require periodic and final reports on the use of resources.
-
- 14a Do you or will you make grants, loans, or other distributions to foreign organizations? If "Yes," answer lines 14b through 14f. If "No," go to line 15. Yes No
- b Provide the name of each foreign organization, the country and regions within a country in which each foreign organization operates, and describe any relationship you have with each foreign organization.
- c Does any foreign organization listed in line 14b accept contributions earmarked for a specific country or specific organization? If "Yes," list all earmarked organizations or countries. Yes No
- d Do your contributors know that you have ultimate authority to use contributions made to you at your discretion for purposes consistent with your exempt purposes? If "Yes," describe how you relay this information to contributors. Yes No
- e Do you or will you make pre-grant inquiries about the recipient organization? If "Yes," describe these inquiries, including whether you inquire about the recipient's financial status, its tax-exempt status under the Internal Revenue Code, its ability to accomplish the purpose for which the resources are provided, and other relevant information. Yes No
- f Do you or will you use any additional procedures to ensure that your distributions to foreign organizations are used in furtherance of your exempt purposes? If "Yes," describe these procedures, including site visits by your employees or compliance checks by impartial experts, to verify that grant funds are being used appropriately. Yes No

Part VIII: Specific Activities (continued)

15. This question wants to know to what extent the organization has relationships with other organizations whether they are for-profit organizations or nonprofit organizations. Close connection refers to formal relationships. There are occasions where a position on the board of directors is held for someone from another organization and sometimes the board of one organization controls the board of another. In this section explain all of these types of relationships. Does someone have a seat on board because they also hold a seat on the city council, a community foundation, chamber of commerce, etc...? The IRS is not interested in finding out what other kinds of organizations the board of directors serve on in addition to the group making the application for 501(c)(3). They are only interested formal relationships. For example, the Mayor may serve on the board of directors because it the group is addressing an issue the Mayor is passionate about. That does not need to be reported. However, if the seat on the board exists for the Mayor or their appointee, whomever that may be and it is formally part of the bylaws then that relationship needs to be explained. In addition, many nonprofits are offshoots of other organizations and nonprofits. If this is the case explain these relationships.
16. In this question the focus is on hospitals. Mark “yes” if the organization will be setting itself up to provide support services to hospitals. They can only do so for certain hospitals and there are limits on the types of services provided.
17. This question has a narrow focus and is aimed at organizations that provide assistance for other nonprofit organizations. In this question they are targeting nonprofits that want to provide 501(c)(3) investment services to it member organizations.
18. This question is also narrow in focus. It would like to know if the organization is being formed to create a charitable risk pool, which is essentially a pool of resources set aside to cover insurable risks of its 501(c)(3) members.
19. If the organization is establishing a school (and the IRS defines schools pretty broadly) then the organization should check this item “yes” and complete schedule B.
20. If the organization is establishing a hospital then the organization should check this item “yes” and complete schedule C.
21. If the organization is providing housing for low-income people, the handicapped or elderly then the organization should check this item “yes” and complete schedule F.
22. If the organization will be offering scholarships, fellowships, educational loans, or other educational grants then the organization should check this item “yes” and complete schedule H. This is not as clear-cut as questions 19 – 21. There are many nonprofits that offer scholarships and educational assistance. If this is an activity of the organization then mark this “yes” and complete the schedule.

The IRS is not interested in finding out what other kinds of organizations the board of directors serve on in addition to the group making the application for 501(c)(3). They are only interested formal relationships.

Part VIII Your Specific Activities (Continued)

- 15 Do you have a **close connection** with any organizations? If "Yes," explain. Yes No

- 16 Are you applying for exemption as a **cooperative hospital service organization** under section 501(e)? If "Yes," explain. Yes No

- 17 Are you applying for exemption as a **cooperative service organization of operating educational organizations** under section 501(f)? If "Yes," explain. Yes No

- 18 Are you applying for exemption as a **charitable risk pool** under section 501(n)? If "Yes," explain. Yes No

- 19 Do you or will you operate a **school**? If "Yes," complete Schedule B. Answer "Yes," whether you operate a school as your main function or as a secondary activity. Yes No

- 20 Is your main function to provide **hospital or medical care**? If "Yes," complete Schedule C. Yes No

- 21 Do you or will you provide **low-income housing** or housing for the **elderly** or **handicapped**? If "Yes," complete Schedule F. Yes No

- 22 Do you or will you provide scholarships, fellowships, educational loans, or other educational grants to individuals, including grants for travel, study, or other similar purposes? If "Yes," complete Schedule H. Yes No

Note: Private foundations may use Schedule H to request advance approval of individual grant procedures.

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Part IX: Financial Data

The financial section tends to be a section that generates lots of discomfort. In this application there are two financial reports required. This first one is the statement of revenue and expenses. It is essentially a budget worksheet that considers the revenue and expense streams for the organization. If the organization is new they will need to project revenues and expenses.

Statement of Revenue and Expenses

The process for completing the budget sheet is simpler for new organizations because they only have to complete the current year and propose a budget for the next two years. Older organizations are required to complete the current year and the three previous years. This may be a test for many not-for-profits that have not maintained accurate record-keeping systems. Complete the form as accurately as possible and ensure future record keeping improves.

Questions 1 through 13 refer to income for the organization

Many of these questions are self-explanatory. The following are notes regarding those questions that most often give people problems with this section.

1. These include funds received from grants and contributions that are not unusual. They could be funds received from a government agency (unless the funds are being provided to the organization in order for the organization to provide a specific public purpose), grants from another organization or a foundation. The tricky part with grants is determining whether they should be included here or in number 12 under unusual grants. The rule of thumb is that if the money is something that comes in fairly reliably from a funder and is not a one-shot deal or part of a temporary (even multi-year) program then it should be listed here.
4. Income from an organization's unrelated exempt activity includes funds earned for services provided unrelated to the organization's purpose. For instance, an organization may have a large meeting room that it will rent for events. Renting the room does not directly advance the purpose but does generate revenue. Record these types of revenues here.
9. This includes income generated from services provided and monies earned from fund-raising that have not yet been reported (except for unusual grants). Services may include charges assessed to participants for attending in a program. Make sure to include an estimate of in-kind assessments. For instance, a shelter may require that program participants contribute a portion of their food stamps. A dollar value should be estimated for these contributions.
12. Unusual grants are those funds that are unusual for the organization. If a contribution is a one-time deal (such as a bequest), or is temporary (like a three-year grant from a foundation for a specific project), or significantly changes the annual income for one year (such as sponsors for a one-time event) list them here. These are contributions not normally considered part of the regular budget.

Questions 14 through 23 relate to expenses.

This can be tricky if the organization's record keeping has not been the best. If the records are not good and receipts are not available, estimate these expenses as best you can. However, **records will need to be accurately maintained and archived.**

15. List grants and contributions made to other organizations. This includes small amounts contributed other groups for special projects.
16. Some nonprofits are grassroots organizations whose members are also eligible to receive benefits and services. The IRS wants to track the resources that are provided to benefit members. If members do not qualify for services but receive them anyhow or receive special consideration because they are members there may be problems with the application.
17. Compensation of officers is closely scrutinized. Provide complete information about officer compensation keeping in mind that board members and officers are supposed to be donating their talents. Expenses are reimbursable but must be documented.
18. List the salaries and wages for all staff. If projecting the need for staff, anticipate what will be spent on salaries and benefits. Benefits count as salary.
21. If the organization has a resource that can be depreciated such as a building, that depreciation should be listed here.
23. List all other expenses that the organization currently has commitments to pay as well as those they anticipate for the future.

Part IX Financial Data

For purposes of this schedule, years in existence refer to completed tax years. If in existence 4 or more years, complete the schedule for the most recent 4 tax years. If in existence more than 1 year but less than 4 years, complete the statements for each year in existence and provide projections of your likely revenues and expenses based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. If in existence less than 1 year, provide projections of your likely revenues and expenses for the current year and the 2 following years, based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. (See instructions.)

A. Statement of Revenues and Expenses

	Type of revenue or expense	Current tax year	3 prior tax years or 2 succeeding tax years			(e) Provide Total for (a) through (d)
		(a) From _____ To _____	(b) From _____ To _____	(c) From _____ To _____	(d) From _____ To _____	
Revenues	1 Gifts, grants, and contributions received (do not include unusual grants)					
	2 Membership fees received					
	3 Gross investment income					
	4 Net unrelated business income					
	5 Taxes levied for your benefit					
	6 Value of services or facilities furnished by a governmental unit without charge (not including the value of services generally furnished to the public without charge)					
	7 Any revenue not otherwise listed above or in lines 9–12 below (attach an itemized list)					
	8 Total of lines 1 through 7					
	9 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to your exempt purposes (attach itemized list)					
	10 Total of lines 8 and 9					
11 Net gain or loss on sale of capital assets (attach schedule and see instructions)						
12 Unusual grants						
13 Total Revenue Add lines 10 through 12						
Expenses	14 Fundraising expenses					
	15 Contributions, gifts, grants, and similar amounts paid out (attach an itemized list)					
	16 Disbursements to or for the benefit of members (attach an itemized list)					
	17 Compensation of officers, directors, and trustees					
	18 Other salaries and wages					
	19 Interest expense					
	20 Occupancy (rent, utilities, etc.)					
	21 Depreciation and depletion					
	22 Professional fees					
	23 Any expense not otherwise classified, such as program services (attach itemized list)					
	24 Total Expenses Add lines 14 through 23					

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Part IX: Financial Data (continued)

This is the second financial section required as part of the application process. In this section the IRS wants to get a sense of what the organization is worth at the time of the application. They want to see the types of resources that are available to the organization as well as the liabilities that the organization has acquired.

Balance Sheet

Many of the items listed here are self-explanatory. Newer organizations are not likely to have a lot of money or liabilities because they have not had time to acquire either assets or liabilities. For these groups this should be a fairly straight-forward and simple.

1. The IRS wants to know how much money is available to the organization in cash, checking and savings accounts.
2. If a potential donor has pledged money but has not yet given it to the organization, include it in line two "accounts receivable."
3. If an organization owns anything of value that it intends to sell, include the value of these items.
4. This is where the organization should list the value of stocks or bonds that someone has pledged to the organization. These would be stocks pledged but not yet received. Sometimes stocks are left to organizations from an estate or trust that may take time to transfer to the organization. In this case the organization knows it will receive the resources, but the transfer has not been completed at the time this application is filed.
5. If the organization owns stocks include the type, number of shares and value at the time the application is submitted.
6. This might be an issue for an organization involved in housing. If the organization holds a mortgage on a property, they should include the value of the mortgage(s) here.
10. List all owned assets that may have value.
12. List the bills (such as rents and utilities) that may not have been paid at the time the balance sheet was completed.
13. This includes contributions that have been pledged or committed but have not been paid.
14. If a group owns property or a vehicle that they are making payments on, they need to list the amounts of the payments and the schedule. The IRS wants to get a sense of the debt load.
15. List all other debts or liabilities.

Part X: Public Charity Status

This section is to help the IRS determine whether or not the organization should be established as a public charity or a private operating foundation. Most groups using this workbook are interested in establishing a public charity. If an organization is actually considering the development of a foundation then the group really should consult with an attorney and an accountant to make sure that they have in place all the necessary accountability structures necessary to operate a foundation. The application process is largely the same. However, the review process conducted by the IRS is and the accountability measures demanded of private operating foundations is different from that of a public charity. The questions in this workbook are based on the premise that the organization is setting up a public charity.

- 1a. The primary purpose of this workbook is to help community-based organizations establish public charities so for most organizations the answer to this question is no and they will skip to question 5.
5. This question is designed to identify the type of public charity that will be established. Questions a through d are straight-forward. If establishing a church, a school, a hospital or a group that supports a church, school or hospital then mark the appropriate question and complete the corresponding schedule. Most community-based nonprofits have multiple purposes so their classification may not be on this page. There are others on page 11 of the 1023 form (pages 56-57 of this workbook).

Part IX Financial Data (Continued)

B. Balance Sheet (for your most recently completed tax year)

		Year End:
		(Whole dollars)
Assets		
1	Cash	1
2	Accounts receivable, net	2
3	Inventories	3
4	Bonds and notes receivable (attach an itemized list)	4
5	Corporate stocks (attach an itemized list)	5
6	Loans receivable (attach an itemized list)	6
7	Other investments (attach an itemized list)	7
8	Depreciable and depletable assets (attach an itemized list)	8
9	Land	9
10	Other assets (attach an itemized list)	10
11	Total Assets (add lines 1 through 10)	11
Liabilities		
12	Accounts payable	12
13	Contributions, gifts, grants, etc. payable	13
14	Mortgages and notes payable (attach an itemized list)	14
15	Other liabilities (attach an itemized list)	15
16	Total Liabilities (add lines 12 through 15)	16
Fund Balances or Net Assets		
17	Total fund balances or net assets	17
18	Total Liabilities and Fund Balances or Net Assets (add lines 16 and 17)	18
19	Have there been any substantial changes in your assets or liabilities since the end of the period shown above? If "Yes," explain. <input type="checkbox"/> Yes <input type="checkbox"/> No	

Part X Public Charity Status

Part X 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. If you are a private foundation, Part X is designed to further determine whether you are a **private operating foundation**. (See instructions.)

- 1a** Are you a private foundation? If "Yes," go to line 10. If "No," go to line 5 and proceed as instructed. Yes No
If you are unsure, see the instructions.
- b** As a private foundation, section 508(e) requires special provisions in your organizing document in addition to those that apply to all organizations described in section 501(c)(3). Check the box to confirm that your organizing document meets this requirement, whether by express provision or by reliance on operation of state law. Attach a statement that describes specifically where your organizing document meets this requirement, such as a reference to a particular article or section in your organizing document or by operation of state law. See the instructions, including Appendix B, for information about the special provisions that need to be contained in your organizing document. Go to line 2.
- 2** Are you a private operating foundation? To be a private operating foundation you must engage 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. If "Yes," go to line 3. If "No," go to the signature section of Part XI. Yes No
- 3** Have you existed for one or more years? If "Yes," attach financial information showing that you are a private operating foundation; go to the signature section of Part XI. If "No," continue to line 4. Yes No
- 4** Have you attached either (1) an affidavit or opinion of counsel, (including a written affidavit or opinion from a certified public accountant or accounting firm with expertise regarding this tax law matter), that sets forth facts concerning your operations and support to demonstrate that you are likely to satisfy the requirements to be classified as a private operating foundation; or (2) a statement describing your proposed operations as a private operating foundation? Yes No
- 5** If you answered "No" to line 1a, indicate the type of public charity status you are requesting by checking one of the choices below. You may check only one box.
The organization is not a private foundation because it is:
- a** 509(a)(1) and 170(b)(1)(A)(i)—a church or a convention or association of churches. Complete and attach Schedule A.
 - b** 509(a)(1) and 170(b)(1)(A)(ii)—a **school**. Complete and attach Schedule B.
 - c** 509(a)(1) and 170(b)(1)(A)(iii)—a **hospital**, a cooperative hospital service organization, or a medical research organization operated in conjunction with a hospital. Complete and attach Schedule C.
 - d** 509(a)(3)—an organization supporting either one or more organizations described in line 5a through c, f, g, or h or a publicly supported section 501(c)(4), (5), or (6) organization. Complete and attach Schedule D.

Part X: Public Charity Status (continued)

5. This is a continuation of question five on the previous page. It is designed to identify the type of public charity that will be established. Questions e and f are pretty straight-forward. Select e if the organization will be set up to test public safety. This does not include local groups that are setting up to deal with other aspects of public safety that do not include testing. Questions g, h, and i reflect how most community-based nonprofits are organized. Figure this out by studying revenue streams. If the primary sources of revenue are grants and contributions from the public the organization is likely g. If most of the revenue comes from membership fees, community fundraising activities, and/or the sale of services then the organization is likely h. If unsure select i, the IRS will decide whether the organization is g or h.
 6. If an organization is classified under g, h, or i in question 5 then it needs to decide if it would like an advance ruling or a definitive ruling on their tax-exempt status, at the time the 1023 application is reviewed by the IRS. A definitive ruling means that the organization wants the IRS to review the application and based on the materials submitted with the application to decide whether or not the application should be accepted and tax exempt status permanently assigned at that time. A group wanting a definitive ruling should select b. An advance ruling differs in that the IRS will review the application and if they think that the organization meets the requirements of a 501(c)(3) they will issue a determination letter that says “yes, we believe this organization meets the basic requirements of a 501(c)(3) but we want to watch it for a few years to determine whether or not they should be granted the status permanently. At the end of the time period prescribed in the letter, if the IRS does not see anything that would lead them to question that the organization is not operating within the guidelines of a 501(c)(3), the organization automatically is 501(c)(3) status permanently. In the case of an advance ruling the organization has all the rights and responsibilities of a 501(c)(3) during the review period. A not-for-profit may be able to act as a 501(c)(3) beginning when the 1023 application is submitted to the IRS. They should provide contributors receipts that include the employer identification number the organization was assigned after filing the SS 4 form. This allows the contributors to claim their contributions off their income taxes. However, there is some risk. If the IRS does not ultimately grant the organization 501(c)(3) status those contributions would no longer be tax deductible. If a contributor is willing accept this risk then they can begin to contribute to the organization once the 1023 form has been filed. The employer identification number is how the IRS tracks contributions to nonprofits so that number needs to be provided to all contributors who would like to receive the tax benefits for contributing to a charitable organization. If an organization wants an advance ruling it should select a and have an officer of the organization sign the consent in the middle of the page. This grants the IRS permission to set up the organization under the guidelines established for the advance ruling period.
- It is generally advisable for organizations to go with an advance ruling. It is possible that the review agent will more closely scrutinize the application for a definitive ruling. In addition, it is a good idea for a newer organization to allow for that additional scrutiny as a check on the financial record keeping of the organization to ensure that they are meeting the requirements of a 501(c)(3). At the end of the review period the organization will receive a letter from the IRS assigning it permanent 501(c)(3) status or requesting additional information. If there is a problem an organization can request an extension of the review period to get things in order. A new has is required to choose an advance ruling and for many organizations this is really the only way to go. It will make the process of being granted 501(c)(3) status much simpler and may expedite the process.
7. This is a reference back to the budget, section IX, page 9 (page 53 of this document). Unusual grants are contributions or grants to the organization that don't occur regularly. These are funds that an organization will only receive one time such as a bequest or for a short-time period, such as a grant for a specific project that will be completed over 3 years. Make a list of all the unusual grants that were included during the budget periods listed in section IX, page 9 (page 53 of this document).

Part X Public Charity Status (Continued)

- e 509(a)(4)—an organization organized and operated exclusively for testing for public safety.
- f 509(a)(1) and 170(b)(1)(A)(iv)—an organization operated for the benefit of a college or university that is owned or operated by a governmental unit.
- g 509(a)(1) and 170(b)(1)(A)(vi)—an organization that receives a substantial part of its financial support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public.
- h 509(a)(2)—an organization that normally receives not more than one-third of its financial support from gross **investment income** and receives more than one-third of its financial support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions).
- i A publicly supported organization, but unsure if it is described in 5g or 5h. The organization would like the IRS to decide the correct status.

- 6 If you checked box g, h, or i in question 5 above, you must request either an **advance** or a **definitive ruling** by selecting one of the boxes below. Refer to the instructions to determine which type of ruling you are eligible to receive.
- a **Request for Advance Ruling:** By checking this box and signing the consent, pursuant to section 6501(c)(4) of the Code you request an advance ruling and agree to extend the statute of limitations on the assessment of excise tax under section 4940 of the Code. The tax will apply only if you do not establish public support status at the end of the 5-year advance ruling period. The assessment period will be extended for the 5 advance ruling years to 8 years, 4 months, and 15 days beyond the end of the first year. You have the right to refuse or limit the extension to a mutually agreed-upon period of time or issue(s). Publication 1035, *Extending the Tax Assessment Period*, provides a more detailed explanation of your rights and the consequences of the choices you make. You may obtain Publication 1035 free of charge from the IRS web site at www.irs.gov or by calling toll-free 1-800-829-3676. Signing this consent will not deprive you of any appeal rights to which you would otherwise be entitled. If you decide not to extend the statute of limitations, you are not eligible for an advance ruling.

Consent Fixing Period of Limitations Upon Assessment of Tax Under Section 4940 of the Internal Revenue Code

For Organization

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

(Type or print name of signer)

(Date)

(Type or print title or authority of signer)

For IRS Use Only

IRS Director, Exempt Organizations

(Date)

- b **Request for Definitive Ruling:** Check this box if you have completed one tax year of at least 8 full months and you are requesting a definitive ruling. To confirm your public support status, answer line 6b(i) if you checked box g in line 5 above. Answer line 6b(ii) if you checked box h in line 5 above. If you checked box i in line 5 above, answer both lines 6b(i) and (ii).
- (i) (a) Enter 2% of line 8, column (e) on Part IX-A. Statement of Revenues and Expenses. _____
 - (b) Attach a list showing the name and amount contributed by each person, company, or organization whose gifts totaled more than the 2% amount. If the answer is "None," check this box.
 - (ii) (a) For each year amounts are included on lines 1, 2, and 9 of Part IX-A. Statement of Revenues and Expenses, attach a list showing the name of and amount received from each **disqualified person**. If the answer is "None," check this box.
 - (b) For each year amounts are included on line 9 of Part IX-A. Statement of Revenues and Expenses, attach a list showing the name of and amount received from each payer, other than a disqualified person, whose payments were more than the larger of (1) 1% of line 10, Part IX-A. Statement of Revenues and Expenses, or (2) \$5,000. If the answer is "None," check this box.

- 7 Did you receive any unusual grants during any of the years shown on Part IX-A. Statement of Revenues and Expenses? If "Yes," attach a list including the name of the contributor, the date and amount of the grant, a brief description of the grant, and explain why it is unusual. Yes No

Part XI: User Fee Information

This is the bill. By completing this form the organization will learn how much money they will need to send the IRS for the filing fee. Once completed, all fees, applications, forms and supporting documents need to be sent to the IRS at:

Internal Revenue Service
P.O. Box 192
Covington, KY 41012-0192

1. This is where the organization determines whether or not it plans on raising a lot of money. Select "yes" for a user fee designation if the organization anticipates that it will remain small and employ no staff. If there is any chance that the not-for-profit will generate revenues above \$10,000 per year in its first four years, select "no" and pay the higher fee. It may be more expensive in the short-term, but will save the organization headaches later should it grow. Select "no" if the group anticipates revenues of more than \$10,000 per year. If a group intends to have any staff or pursue grants, it is a good idea to go with "no." It is very difficult to have staff on a budget of less than \$10,000 per year. If the organization is small and anticipates that there may be an opportunity to grow, it should anticipate that growth and be sure to file the appropriate fee with the IRS. If there is any chance the group will grow revenues above \$10,000 per year in the first 4 years select "no" and pay the higher fee.
2. For those groups who said "no" in question 1 mark this question.
3. For those groups who said "yes" in question 1 mark this question.

The fee is non-refundable. If the organization does not receive the 501(c)(3) designation, it will not get its money back. Instead the IRS will likely designate the organization as a different type of not-for-profit such as 501 (c)(4) or 501 (c)(6). They are still tax exempt but do not have some of the other benefits such as being able to offer tax credits to donors. Once the fee amount has been determined, make out a check to the United States Treasury and send it to the IRS with the application and other materials.

Congratulations! The application is complete. The rest of this guidebook will go through a couple of important schedules that some organizations may need to complete, review a checklist, and offer additional resources.

If there is any chance that the corporation will receive revenues beyond \$10,000 per year in its first four years then select "no" and pay the higher fee. It may be more expensive in the short-term but will save the organization lots of headaches later should it grow.

Part XI User Fee Information

You must include a user fee payment with this application. It will not be processed without your paid user fee. If your average annual gross receipts have exceeded or will exceed \$10,000 annually over a 4-year period, you must submit payment of \$750. If your gross receipts have not exceeded or will not exceed \$10,000 annually over a 4-year period, the required user fee payment is \$300. See instructions for Part XI, for a definition of **gross receipts** over a 4-year period. Your check or money order must be made payable to the United States Treasury. *User fees are subject to change. Check our website at www.irs.gov and type "User Fee" in the keyword box, or call Customer Account Services at 1-877-829-5500 for current information.*

- 1 Have your annual gross receipts averaged or are they expected to average not more than \$10,000? Yes No
 If "Yes," check the box on line 2 and enclose a user fee payment of \$300 (Subject to change—see above).
 If "No," check the box on line 3 and enclose a user fee payment of \$750 (Subject to change—see above).
- 2 Check the box if you have enclosed the reduced user fee payment of \$300 (Subject to change).
- 3 Check the box if you have enclosed the user fee payment of \$750 (Subject to change).

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, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please
Sign
Here



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

.....
 (Type or print name of signer)

.....
 (Date)

.....
 (Type or print title or authority of signer)

Reminder: Send the completed Form 1023 Checklist with your filled-in-application.

Form 1023 (Rev. 6-2006)

SAMPLE DO NOT USE THIS FORM

Schedule E: Organizations not Filing Within 27 Months of Formation

The IRS expects that most not-for-profit corporations will apply for 501(c)(3) status at some point in their organization's history, particularly if the organization plans to handle financial resources. Questions one through six are an attempt to find out why a group has not filed and whether or not it is still eligible to file. If the organization is older and has not filed for a 501(c)(3), don't get too worried. Most not-for-profit organizations are still eligible.

1. If the organization is setting up a church mark "yes" and return to the 1023 application.
2. If the organization is small with gross receipts of less than \$5000 then mark yes and return to the 1023 application.
3. This is a more complicated question. A subordinate group is an organization whose exemption was covered by another organization. What comes to mind is a group like Girl Scouts. Girl Scouts is a 501(c)(3) with many local chapters. If Girls Scouts had a group exemption letter then all the local Girl Scout chapters would be covered by the 501(c)(3) exemption letter of the parent organization. 3a is asking if the organization was part of a group exemption letter and now wants to have its own 501(c)(3) designation. If not, then select "no". 3b is a little trickier. If the parent organization dissolved or an organization decided to waive its connection to the parent organization then it is eligible to apply for its own 501(c)(3) as long it does so within 27 months of the time in which it separated from the parent organization. If this is the case, mark "yes" and return to the 1023 application. 3c is referring to applications by organizations that were part of an application for a group exemption letter that was denied. For example, Girl Scouts may have applied for a 501(c)(3) to cover all its chapters and the IRS denied the application. The local chapter can still file for its own exemption letter as long as it does so within 27 months of when the original application was denied. If this is the case, mark "yes" and return to the 1023 application. The situation for question 3 is rare and unlikely to apply to many community-based organizations.
4. This will cover organizations that have been around a very long time. There are cases where small organizations work for a long time with very little revenue and did not feel the need to incorporate as a 501(c)(3). They receive a grant or bequest and realize that they need the 501(c)(3) to more effectively protect and manage their resources. If an organization was formed before 1969 then they can mark "yes" and return to the 1023 application.
5. If for some reason an organization cannot be qualified by answering yes to questions 1 through 4, it can still qualify if the organization requests and extension. A letter will need to be written that explains why the organization did not file sooner. If the organization feels that it had a good reason for not filing and it is able to justify it effectively in a letter then mark "yes", write the letter, attach it to the schedule and return to the 1023 application.
6. If the organization was not able to qualify in the first five questions this is the last chance. The IRS will offer to treat the application as a new organization beginning on the date the application was postmarked. If the organization marks "yes" on 6a the IRS will treat it as new, the financial history of the organization will not be considered by the IRS when reviewing the 501(c)(3) application. If the organization marks "yes" for 6a they will need to go to Part X of the 1023 application, question 6a, page 11 (page 57 of this manual) and check 6a for the advance ruling and have an officer of the organization sign the consent on that same page. Question 6b is focused on future revenues. Most organizations that have a history without filing for 501(c)(3) are expecting some sort of change in revenue. Often it is a change in revenue that is the impetus for filing for 501(c)(3) status. Mark "yes" if there is an expected change in financial support and complete questions 7 and 8.

Schedule E. Organizations Not Filing Form 1023 Within 27 Months of Formation

Schedule E is intended to determine whether you are eligible for tax exemption under section 501(c)(3) from the postmark date of your application or from your date of incorporation or formation, whichever is earlier. If you are not eligible for tax exemption under section 501(c)(3) from your date of incorporation or formation, Schedule E is also intended to determine whether you are eligible for tax exemption under section 501(c)(4) for the period between your date of incorporation or formation and the postmark date of your application.

- 1 Are you a church, association of churches, or integrated auxiliary of a church? If "Yes," complete Schedule A and stop here. Do not complete the remainder of Schedule E. Yes No
-
- 2a Are you a public charity with annual **gross receipts** that are normally \$5,000 or less? If "Yes," stop here. Answer "No" if you are a private foundation, regardless of your gross receipts. Yes No
- b If your gross receipts were normally more than \$5,000, are you filing this application within 90 days from the end of the tax year in which your gross receipts were normally more than \$5,000? If "Yes," stop here. Yes No
-
- 3a Were you included as a subordinate in a group exemption application or letter? If "No," go to line 4. Yes No
- b If you were included as a subordinate in a group exemption letter, are you filing this application within 27 months from the date you were notified by the organization holding the group exemption letter or the Internal Revenue Service that you cease to be covered by the group exemption letter? If "Yes," stop here. Yes No
- c If you were included as a subordinate in a timely filed group exemption request that was denied, are you filing this application within 27 months from the postmark date of the Internal Revenue Service final adverse ruling letter? If "Yes," stop here. Yes No
-
- 4 Were you created on or before October 9, 1969? If "Yes," stop here. Do not complete the remainder of this schedule. Yes No
-
- 5 If you answered "No" to lines 1 through 4, we cannot recognize you as tax exempt from your date of formation unless you qualify for an extension of time to apply for exemption. Do you wish to request an extension of time to apply to be recognized as exempt from the date you were formed? If "Yes," attach a statement explaining why you did not file this application within the 27-month period. Do not answer lines 6, 7, or 8. If "No," go to line 6a. Yes No
-
- 6a If you answered "No" to line 5, you can only be exempt under section 501(c)(3) from the postmark date of this application. Therefore, do you want to treat this application as a request for tax exemption from the postmark date? If "Yes," you are eligible for an advance ruling. Complete Part X, line 6a. If "No," you will be treated as a private foundation. Yes No
- Note.** Be sure your ruling eligibility agrees with your answer to Part X, line 6.
- b Do you anticipate significant changes in your sources of support in the future? If "Yes," complete line 7 below. Yes No

Schedule E: Organizations not Filing Within 27 Months of Formation

7. Only complete the form in question 7 if the answer to 6b was yes. This information should be the same as what was recorded in Part IX, page 9 of the 1023 application (page 53 of this guidebook).

Questions 1 through 13 refer to income for the organization

Many of these questions are self-explanatory. The following are notes regarding those questions that most often give people problems with this section.

1. These include funds received from grants and contributions that are not unusual. They could be funds received from a government agency (unless the funds are being provided to the organization in order for the organization to provide a specific public purpose), grants from another organization or a foundation. The tricky part with grants is determining whether they should be included here or in number 12 under unusual grants. The rule of thumb is that if the money is something that comes in fairly reliably from a funder and is not a one-shot deal or part of a temporary (even multi-year) program then it should be listed here.
4. Income from an organization's unrelated exempt activity includes funds earned for services provided unrelated to the organization's purpose. For instance, an organization may have a large meeting room that it will rent for events. Renting the room does not directly advance the purpose but does generate revenue. Record these types of revenues here.
9. This includes income generated from services provided and monies earned from fund-raising that have not yet been reported (except for unusual grants). Services may include charges assessed to participants for attending in a program. Make sure to include an estimate of in-kind assessments. For instance, a shelter may require that program participants contribute a portion of their food stamps. A dollar value should be estimated for these contributions.
12. Unusual grants are those funds that are unusual for the organization. If a contribution is a one-time deal (such as a bequest), or is temporary (like a three-year grant from a foundation for a specific project), or significantly changes the

annual income for one year (such as sponsors for a one-time event) list them here. These are contributions not normally considered part of the regular budget.

8. If the answer to question 6 was "yes" then the IRS is offering the organization to cover any tax liability the organization may have accrued prior to applying 501(c)(3) status. What this means is that from the time the 1023 application is filed the organization is able to act like a new organization beginning the date the IRS receives the 1023 application. However, since the organization has been operating as a not-for-profit corporation but never filed for a 501(c)(3) in order to be a not-for-profit that was exempt from paying income taxes on those earlier years the organization may want to have a record with the IRS confirming it was not liable for taxes on income received prior to filing for 501(c)(3) status. The IRS is offering is to designate the organization as 501(c)(4) or (c)(6) to cover the tax liability for the period prior to submitting the application for 501(c)(3). To take advantage of this offer the IRS needs a completed copy of page of the 1024 form, the application for 501(c)(4) or (c)(6). These are organizations like Labor Unions and Business Associations that are not-for-profits but aren't eligible to give donors tax deductions for their contributions. If an organization decided to go this route, they must remember that contributions they received up to the time the application for the 501(c)(3) was filed were not tax deductible. They are tax exempt but not tax deductible.

Schedule E. Organizations Not Filing Form 1023 Within 27 Months of Formation (Continued)

- 7** Complete this item only if you answered "Yes" to line 6b. Include projected revenue for the first two full years following the current tax year.

Type of Revenue	Projected revenue for 2 years following current tax year		
	(a) From To	(b) From To	(c) Total
1 Gifts, grants, and contributions received (do not include unusual grants)			
2 Membership fees received			
3 Gross investment income			
4 Net unrelated business income			
5 Taxes levied for your benefit			
6 Value of services or facilities furnished by a governmental unit without charge (not including the value of services generally furnished to the public without charge)			
7 Any revenue not otherwise listed above or in lines 9–12 below (attach an itemized list)			
8 Total of lines 1 through 7			
9 Gross receipts from admissions, merchandise sold, or services performed, or furnishing of facilities in any activity that is related to your exempt purposes (attach itemized list)			
10 Total of lines 8 and 9			
11 Net gain or loss on sale of capital assets (attach an itemized list)			
12 Unusual grants			
13 Total revenue. Add lines 10 through 12			

SAMPLE DO NOT USE THIS FORM

- 8** According to your answers, you are only eligible for tax exemption under section 501(c)(3) from the postmark date of your application. However, you may be eligible for tax exemption under section 501(c)(4) from your date of formation to the postmark date of the Form 1023. Tax exemption under section 501(c)(4) allows exemption from federal income tax, but generally not deductibility of contributions under Code section 170. Check the box at right if you want us to treat this as a request for exemption under 501(c)(4) from your date of formation to the postmark date. ▶

Attach a completed Page 1 of Form 1024, Application for Recognition of Exemption Under Section 501(a), to this application.

Schedule G: Successors to Other Organizations

These questions are designed to explore the relationship between the new organization that wants to be a 501(c)(3) and the old organization if it was for-profit

1. If a new nonprofit is a successor to a for-profit organization explain how that transition took place. What precipitated the change? Question 1b wants to know why the not-for-profit is converting the resources of a for-profit organization to a not-for-profit. One of the concerns the IRS has is that a for-profit organization may be converting to not-for-profit status to protect resources or avoid tax liabilities. The reason for the conversion needs to be closely linked to supporting the purposes of a 501(c)(3) nonprofit.
2. This is a fairly common occurrence. What happens is an organization such as an existing not-for-profit may change their area of emphasis, decide to spin off a project, or go out of business. A new organization may grow out of an existing organization or replace one. In 2a the IRS is asking if the organization is a successor to another organization where the new organization is taking over activities of another organization or is receiving at least 25% of the assets of another organization as it begins its work. If this is the case then the new organization (the one applying for 501(c)(3) status) should mark “yes” and explain how the new organization grew out of the old organization. If this transition took place more than a few months ago it may require finding people who were active in the old organization at the time the transition or transfer of resources took place. Question 6b is seeking information about the tax status of the older organization. Was it incorporated as a nonprofit? If records are difficult to find the Secretary of State should be able to produce records that identify whether or not the organization was ever incorporated as a nonprofit. Question 6c is asking about the federal designation was 501(c)(3), (c)(4), (c)(6), or some other designation applied for and received. This may require some research. The IRS may have some records regarding the status of older organizations. They have a toll free number available where the status of an organization can be verified, 1-877-829-5500. 6d wants to know if the tax status of the previous organization was ever revoked. They want to be sure that spinning off a new organization is not simply an attempt to avoid the liabilities of an older organization. Finally, in 6e they want an explanation as to why the new organization took over the old organization. Provide some details but do not write a dissertation. It should be explained in a paragraph or two. If the IRS has additional questions they will ask. The best policy is to make sure the story is adequately told, but be short and to the point.
3. If the records are not available it may be possible to get the EIN number of the predecessor organization by contacting the EIN Operation of the IRS at 1-800-829-4933. The bank that held the accounts of the organization should also have the EIN number.
4. This is self-explanatory. They want to know who was involved in the leadership of the other organization. If the predecessor organization was a for-profit company then they also want to know what percentage of that company did these people own.
5. Sometimes some of the people will stay with the new organization after the transition. They want to know what that relationship looks like. The IRS want to be sure that the new organization is not being created simply to serve as a customer for one of the owners of the predecessor organization and other potential conflicts of interest.
6. If the new organization received, money, property or other assets from the predecessor organization then the resources need to be inventoried and appraised.
7. This is similar to question 6 but focuses on debts and liabilities.
8. The IRS is interested in the formal ties between the new organization and the predecessor organization. In this question they are asking about leases on equipment or facilities. If such agreements exist be prepared to explain them. The IRS will have concerns about conflicts of interest and the acquisition of debt. It is very difficult for a new nonprofit to become fiscally solvent. Starting out with debt that was inherited from someone else makes that task even more challenging.
9. This question is also checking for conflicts of interest. The IRS wants to know about all financial relationships between people who had stake in the old organization and maintain a stake in the new organization. This does not mean they will not approve the application for 501(c)(3) they simply want to ensure there are structures in place that will minimize the chance of a conflict of interest occurring.

Schedule G. Successors to Other Organizations

1a Are you a **successor to a for-profit organization**? If "Yes," explain the relationship with the **predecessor** organization that resulted in your creation and complete line 1b. Yes No

b Explain why you took over the activities or assets of a for-profit organization or converted from for-profit to nonprofit status.

2a Are you a successor to an organization other than a for-profit organization? Answer "Yes" if you have taken or will take over the activities of another organization; or you have taken or will take over 25% or more of the fair market value of the net assets of another organization. If "Yes," explain the relationship with the other organization that resulted in your creation. Yes No

b Provide the tax status of the predecessor organization.

c Did you or did an organization to which you are a successor previously apply for tax exemption under section 501(c)(3) or any other section of the Code? If "Yes," explain how the application was resolved. Yes No

d Was your prior tax exemption or the tax exemption of an organization to which you are a successor revoked or suspended? If "Yes," explain. Include a description of the corrections you made to re-establish tax exemption. Yes No

e Explain why you took over the activities or assets of another organization.

3 Provide the name, last address, and EIN of the predecessor organization and describe its activities.

Name: _____ **EIN:** _____

Address: _____

4 List the owners, partners, principal stockholders, officers, and governing board members of the predecessor organization. Attach a separate sheet if additional space is needed.

Name	Address	Share/Interest (If a for-profit)

5 Do or will any of the persons listed in line 4, maintain a working relationship with you? If "Yes," describe the relationship in detail and include copies of any agreements with any of these persons or with any for-profit organizations in which these persons own more than a 35% interest. Yes No

6a Were any assets transferred, whether by gift or sale, from the predecessor organization to you? If "Yes," provide a list of assets, indicate the value of each asset, explain how the value was determined, and attach an appraisal, if available. For each asset listed, also explain if the transfer was by gift, sale, or combination thereof. Yes No

b Were any restrictions placed on the use or sale of the assets? If "Yes," explain the restrictions. Yes No

c Provide a copy of the agreement(s) of sale or transfer.

7 Were any debts or liabilities transferred from the predecessor for-profit organization to you? If "Yes," provide a list of the debts or liabilities that were transferred to you, indicating the amount of each, how the amount was determined, and the name of the person to whom the debt or liability is owed. Yes No

8 Will you lease or rent any property or equipment previously owned or used by the predecessor for-profit organization, or from persons listed in line 4, or from for-profit organizations in which these persons own more than a 35% interest? If "Yes," submit a copy of the lease or rental agreement(s). Indicate how the lease or rental value of the property or equipment was determined. Yes No

9 Will you lease or rent property or equipment to persons listed in line 4, or to for-profit organizations in which these persons own more than a 35% interest? If "Yes," attach a list of the property or equipment, provide a copy of the lease or rental agreement(s), and indicate how the lease or rental value of the property or equipment was determined. Yes No

PROCEDURAL CHECKLIST

The procedural checklist helps to ensure that everything necessary to review the application is included in the materials sent to the IRS. It will speed up the review process if the IRS receives everything it needs the first time.

Read carefully through the checklist and make sure that you have all the materials. If something is missing it can delay the entire review process by weeks—sometimes months! In addition to what is listed in the procedural checklist also make sure the following are included:

a. The State of Missouri Articles of Incorporation

These articles should have two pages. The first will be a copy of the actual articles filed with the Secretary of State's seal stamped on it. The second page needs to include the purpose and dissolution clauses discussed on page 28 and listed on page 31. **Not including these two clauses with the Articles of Incorporation is one of the most common reasons an application is delayed.**

b. Current (adopted, signed, and dated) Bylaws

Be certain that the page of your bylaws with the dates and signatures is included in the copy of the bylaws that you send. If they are not included the review process will be delayed.

c. Supporting materials

There are a number of questions in the 1023 application that ask for additional material. Go through each part of the application once more and make sure all the information the IRS is asking for is included. In addition, other supporting materials such as advertisements and brochures that the organization has used in its course of business may be included.

d. Schedules

Some organizations will need to complete a schedule as part of their 1023 application. Ensure that all relevant schedules are included and completed and signed (if necessary).

e. Forms 1023

Make sure all questions are completed and that all signatures are included for the application and double-check that the employer identification number

is on the front of the application. **Don't forget to include your check.**



It is important to carefully read through the checklist and make sure that you all the materials are included. If something is missing it can delay the entire review process by weeks—sometimes months.

Form 1023 Checklist

(Revised June 2006)

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

Note. Retain a copy of the completed Form 1023 in your permanent records. Refer to the General Instructions regarding Public Inspection of approved applications.

Check each box to finish your application (Form 1023). Send this completed Checklist with your filled-in application. If you have not answered all the items below, your application may be returned to you as incomplete.

- Assemble the application and materials in this order:
- Form 1023 Checklist
 - Form 2848, *Power of Attorney and Declaration of Representative* (if filing)
 - Form 8821, *Tax Information Authorization* (if filing)
 - Expedite request (if requesting)
 - Application (Form 1023 and Schedules A through H, as required)
 - Articles of organization
 - Amendments to articles of organization in chronological order
 - Bylaws or other rules of operation and amendments
 - Documentation of nondiscriminatory policy for schools, as required by Schedule B
 - Form 5768, *Election/Revocation of Election by an Eligible Section 501(c)(3) Organization To Make Expenditures To Influence Legislation* (if filing)
 - All other attachments, including explanations, financial data, and printed materials or publications. Label each page with name and EIN.
- User fee payment placed in envelope on top of checklist. **DO NOT STAPLE** or otherwise attach your check or money order to your application. Instead, just place it in the envelope.
- Employer Identification Number (EIN)
- Completed Parts I through XI of the application, including any requested information and any required Schedules A through H.
- You must provide specific details about your past, present, and planned activities.
 - Generalizations or failure to answer questions in the Form 1023 application will prevent us from recognizing you as tax exempt.
 - Describe your purposes and proposed activities in specific easily understood terms.
 - Financial information should correspond with proposed activities.
- Schedules. Submit only those schedules that apply to you and check either "Yes" or "No" below.
- | | | | |
|------------|----------------|------------|----------------|
| Schedule A | Yes ___ No ___ | Schedule E | Yes ___ No ___ |
| Schedule B | Yes ___ No ___ | Schedule F | Yes ___ No ___ |
| Schedule C | Yes ___ No ___ | Schedule G | Yes ___ No ___ |
| Schedule D | Yes ___ No ___ | Schedule H | Yes ___ No ___ |

- An exact copy of your complete articles of organization (creating document). Absence of the proper purpose and dissolution clauses is the number one reason for delays in the issuance of determination letters.
 - Location of Purpose Clause from Part III, line 1 (Page, Article and Paragraph Number) _____
 - Location of Dissolution Clause from Part III, line 2b or 2c (Page, Article and Paragraph Number) or by operation of state law _____
- Signature of an officer, director, trustee, or other official who is authorized to sign the application.
 - Signature at Part XI of Form 1023.
- Your name on the application must be the same as your legal name as it appears in your articles of organization.

Send completed Form 1023, user fee payment, and all other required information, to:

Internal Revenue Service
P.O. Box 192
Covington, KY 41012-0192

If you are using express mail or a delivery service, send Form 1023, user fee payment, and attachments to:

Internal Revenue Service
201 West Rivercenter Blvd.
Attn: Extracting Stop 312
Covington, KY 41011

SAMPLE DO NOT USE THIS FORM

CONCLUSION: ADDITIONAL RESOURCES

We hope that you have found this guidebook helpful in understanding the process of creating a nonprofit and applying for 501(c)(3) status with the IRS. As part of the electric cooperative's ongoing commitment to improving the quality of life for all Missourians, Associated Electric Cooperative has created a series of resource materials related to fund-raising for not-for-profit organizations.

Through a public-private partnership arrangement, the following resources are available from:

Mark Woodson
 Associated Electric Cooperative Inc.
 Box 754
 Springfield, MO 65801-0754
 (417) 881-1204,

1. Mobilizing Community Resources

This publication was written by a team from the Nebraska Community Foundation, including Vicki Luther and Milan Wall of the Heartland Center for Leadership Development and Paul Strawhecker. The publication covers topics such as:

- Organizing an ad hoc committee
- Identifying community priorities
- Building community consensus
- Tapping local resources
- Making your case
- Marketing your plan

2. The Local Foundation Vision Video

A two-and-a-half-hour program produced by Associated Electric Cooperative with segments on:

- The history and growth of community foundations
- The steps to creating a community foundation
- Three models of community foundations
- Panel discussion talking about the unique opportunities provided by a local community foundation

3. Capital Campaign Implementation

This publication was written by Paul Strawhecker, a nationally recognized fund-raising consultant, and covers such topics as:

- Components of a development program
- The roles of board, volunteers and staff
- Should you use a consultant?
- The role of a feasibility study
- Campaign overview and plan
- Organizing the campaign solicitation process

4. Development Assessment and Planning

This publication will cover the following topics:

- Creating a development program
- Annual campaign plan and implementation
- Creating and maintaining a bequest program
- Balancing your short- and long-term development efforts
- Coordination of capital campaigns
- Inventory of current fund-raising efforts

Ordering IRS Tax Forms

1. Call 1-800-TAX-FORM (1-800-829-3676)
2. Contact the IRS FORMS Website at: <http://www.irs.gov/formspubs/index.html>
 - a. SS4 Application: <http://www.irs.gov/pub/irs-pdf/fss4.pdf>
 - b. SS4 Instructions: <http://www.irs.gov/pub/irs-pdf/iss4.pdf>
 - c. 1023 Application: <http://www.irs.gov/pub/irs-pdf/f1023.pdf>
 - d. 1023 Instructions: <http://www.irs.gov/pub/irs-pdf/i1023.pdf>
3. Fax Forms through your Fax machine, dial -703-368-9694 (not a toll-free call).

Missouri Resources

Secretary of State

This office can answer questions about incorporating in the state of Missouri as a not-for-profit and provide the applications and amendment forms. There are four sites in Missouri:

Missouri State Information Center
600 W. Main, room 322 / PO Box 778
Jefferson City, MO 65102
(573) 751-4153
Toll free: 1-866-223-6535

U.S. Customs & Post Office Building
815 Olive Street, Suite 210
St. Louis, MO 63101
(314) 340-7490

Springfield State Office Building
149 Park Central Square, Room 624
Springfield, MO 65806
(417) 895-6330

Kansas City State Office Building
615 E. 13th Street, 5th Floor, room 513
Kansas City, MO 64106
(816) 889-2925

Forms are also available on the Secretary of State's Website:

<http://www.sos.mo.gov/business/corporations/forms.asp>

The application for articles of Incorporation is available at: <http://www.sos.mo.gov/forms/corp/corp52.pdf>

Employer Identification Numbers

If your corporation needs an Employer Identification Number (EIN) an application may be obtained and sent to the address listed below. This application may also be made over the telephone by calling the number listed after the address. **An EIN is required for all 501(c)(3) applications regardless of whether your corporation has employees.**

File by Mail at:

Attention: EIN Operation
Philadelphia, PA 19255
Fax-TIN: 859-669-5760

File by phone at: 1-800-829-4933

File online at: https://sa2.www4.irs.gov/sa_vign/newFormSS4.do

Internal Revenue Service

The application for the 501(c)(3) (Form 1023 and others) and all supporting documents must be sent to the address below (with the appropriate fee).

Internal Revenue Service
P.O. Box 192
Covington, KY 41012-0192

If using express mail or a delivery service, send Form 1023, user fee payment, and attachments to:

Internal Revenue Service
201 West Rivercenter Blvd.
Attn: Extracting Stop 312
Covington, KY 41011

The IRS has also established a help line for tax exempt organizations so that they can track the status of an application and get other questions answered. The number is 1-877-829-5500.

Best wishes to you and the development of your not-for-profit organization.



Stephen Jeanetta
State Specialist Community Development Process
University of Missouri Extension
229 Gentry Hall
Columbia, MO 65211
(573) 884-3018
(573) 882-5127
jeanettas@missouri.edu