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## Becoming a Tax-Exempt Organization

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Many non-profit organizations wish to benefit from tax exemptions offered by the Internal Revenue Service and state governments. Groups seeking tax-exempt status first must form the underlying organization as a nonprofit corporation. State nonprofit corporations laws govern formation of these organizations. Generally, a nonprofit may not involve itself in pecuniary gain or remuneration. Each state sets specific rules and limits for the types of groups that may qualify for nonprofit status, but qualifying groups may incorporate in the same manner as their profit-minded cousins.

The procedure for gaining tax-exempt status can be lengthy and complex -- requiring time, money, and a certain level of technical expertise in the legal and tax implications involved. Once the IRS grants tax-exempt status, the organization must follow specific operational rules, which require careful oversight and ongoing professional assistance. Despite these obstacles, the result can make a phenomenal difference to achievement of organizational goals.

### Applying for Tax-Exempt Status with IRS: Five Categories

Once the nonprofit corporation is formed, the most common way to receive tax-exempt status is to apply under Section 501(c)(3) of the Internal Revenue Code. Nonprofit corporations qualifying under this section enjoy exemptions from federal, state, and local taxes, and donors can write off their contributions on their individual tax returns. The Internal Revenue Service allows organizations to file for tax-exempt status under section 501(c)(3) if they fit within one of five identified categories. The organization must:

- \* Have a "Charitable Purpose"; or
- \* Qualify as a "Religious Group"; or
- \* Be considered a "Scientific Organization"; or
- \* Serve a "Literary Purpose"; or
- \* Qualify as an "Educational Organization".

The IRS defines these categories broadly, but does not rubber-stamp all applications. For example, scientific organizations must perform research in the public interest, and educational organizations can not espouse a particular political viewpoint.

### State Tax Exemptions for Non-Profit Organizations

State tax exemptions for non-profit organizations may depend on the IRS's decision on the group's federal application. Once the official notification of status arrives, the nonprofit should seek to confirm tax-exempt status in the state of residence. Generally, state tax-exempt status applies retroactively to the date of the federal grant.

#### Non-Profit Organizations and Tax-Exempt Status: Getting Legal Help

Nonprofit incorporation and federal tax exemption involve complex legal and taxation issues that should be undertaken only with the assistance of an experienced attorney and/or tax expert. These professionals can oversee the entire process, and ensure that the organization meets all relevant statutory requirements. Many business lawyers specialize in nonprofit assistance and have the needed expertise to meet your group's needs.

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