

## 501c3: What Does It Mean?

By Carol L Topp, CPA

501(c)(3) is a section of the IRS tax code that defines a particular type of non-profit organization. The 501 designation refers to tax exemption for certain organizations. The (c)(3) designation refers specifically to organizations that are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals.

There are several types of 501(c) organizations from nonprofit hospitals to the Humane Society. 501(c)(3) is by far the most popular with 80% of all tax exempt organization being recognized as “qualified charities” by the IRS. Other popular types of 501 organizations include:

- 501c(4) Social Welfare Organizations
- 501c(6) Trade Association of Business League
- 501c(7) Recreational Clubs

### **Highly coveted status**

501(c)(3) status is highly coveted by nonprofits because it allows the group to avoid paying taxes on any financial surplus. But it also allows donors to deduct their contributions from their income for tax purposes. Some individuals and groups (and virtually all foundations) will not give to a charity unless it has 501(c)(3) status.

### **But we're not a charity!**

Do not be confused by the word “charity.” The IRS refers to all organizations qualifying for tax exemption under 501(c)(3) as charities. Your group does not have to operate as a charity, meaning offering free services or products unless it desires to do so. Most nonprofit hospitals, schools and educational organizations charge a fee for their services. Their primary purpose is educational, not to offer relief to the poor or underprivileged. Some of these groups may have a charitable emphasis and several have established special funds to help financially strapped families. Their main purpose is still education though, not charity.

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