

501c3 Status: Are You Ready? By Carol Topp, CPA

The Internal Revenue Service (IRS) application for 501(c)(3) tax exempt status is not an easy process. The form (Form 1023) is twenty-six pages long. The IRS designed it to weed out nonprofits that are unorganized or not serious about their tax exempt status. According IRS statistics, about 23% of applications for tax exempt status are not granted. This is usually because the applicant drops out of the system, not because the IRS rejects them. The IRS actually approves 99.3% of applicants who complete the process¹. Applicants drop out because the IRS questions and requests for more data discourage them, or sometimes they cannot supply what the IRS is requesting such as bylaws, board members' names, conflict of interest policies, or accurate financial records. In order to have success with the 501c3(c)(3) application, your group must be organized.

Use this checklist to see if your nonprofit organization is ready for 501(c)(3) tax exempt:

- Do you have a Board of Directors, regular meetings and a method to elect the board?
- Do you have Articles of Incorporation and nonprofit corporation status from your state?
- Do you have bylaws?
- Do you keep minutes of your meetings?
- Do you have three years of financial history or can you predict two years of budgeted financial statements?
- Do you have a written mission statement? Can you explain your purpose and activities? Is your mission charitable, educational, scientific or one of the IRS's other charitable purposes?
- Do you have a Conflict of Interest policy?
- Would you be willing to forgo any political candidate endorsements? 501(c)(3) organizations may not endorse political candidates.
- Do you have enough money to pay the IRS filing fee of \$300-\$750?

If you said no to any of these items, you are yet not ready for 501(c)(3) application. Assemble your board and tackle the paperwork by creating policies and bylaws. You may need to ask your treasurer to assemble financial statements for the past three years. If you work now to get your group ready, the process will go smoothly.

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¹ *Prepare Your Own 501c3 Application* by Sandy Deja