

BELIEVE IT OR NOT! IRS CUTS SOME RED TAPE
It's Now Easier for Smaller Charitable Organizations to Obtain 501(c)(3) Status

By: Seth Groman

This summer, the IRS introduced a new, shorter application form for small charities seeking 501(c)(3) tax-exempt status. The new Form 1023-EZ is just three pages long and simplifies many aspects of the tax-exemption application that do not necessarily apply to small charitable organizations. Prior to the release of the new form, all charities desiring 501(c)(3) tax-exempt status were required to complete the same 26-page application no matter the size or complexity of their activities.

The IRS anticipates that as many as 70 percent of all applicants will qualify to use the new simplified form. In order to use the new form, an organization must certify that it satisfies certain requirements, including having gross receipts of \$50,000 or less and assets of \$250,000 or less. Certain organizations are ineligible to utilize the new form regardless of their income or assets, including foreign entities; entities that are not corporations, unincorporated associations, or trusts; and churches, schools, and hospitals. Form 1023-EZ may only be filed electronically and the submission fee is \$400.

The new application form has sped up the application process for smaller organizations and allowed the IRS to devote more resources to reviewing applications from more complex organizations. Immediately prior to the release of Form 1023-EZ, the average age of pending tax-exemption applications was approximately nine months, though it was not unheard of for an organization to have to wait well over a year before the IRS assigned its application to an agent for consideration. Since the Form 1023-EZ was released, the average age of pending applications has decreased to three months with some organizations receiving a decision in about one month.

It is important to note that despite the simple nature of Form 1023-EZ, organizations should continue to seek professional guidance while seeking tax-exempt status. Form 1023-EZ is essentially a checklist that asks applicants to certify under penalties of perjury that they satisfy the requirements under Section 501(c)(3) of the Internal Revenue Code to be tax-exempt. When evaluating Form 1023-EZ applications, the IRS effectively takes the organization's word at face value that it is entitled to tax-exempt status. While this approach speeds up the processing time for exemption applications, there is a risk that an organization may inadvertently engage in impermissible practices for years before a problem is discovered, leaving it open to significant penalties and liabilities. Thus, it is critical that an organization seek professional assistance to ensure that its purposes, programs, and revenue streams are appropriate for obtaining and maintaining 501(c)(3) tax-exempt status.

For any of your other tax & wealth planning needs, please contact an attorney in our tax & wealth planning group:

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