

COOPERATIVE BAPTIST FELLOWSHIP OF NORTH CAROLINA
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Do Churches and Religious Organizations Need to Obtain Recognition of Tax-Exempt Status Through a Group Determination Letter?

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EXECUTIVE SUMMARY

A partnering church made inquiry to CBFNC concerning whether CBFNC had obtained a group exemption letter for tax-exempt status from IRS. One of their concerns was that they have a “special number” from IRS that they could give to their contributors that would show that their contributions to the church were tax deductible. Since this issue had not come up before, a concerted effort was made to determine if there was a need for a group determination letter and if there was a need, what would be the financial and labor cost to obtain and maintain the letter and further, would it be in conflict with the guiding principles of the organization.

After considerable research of information provided by the Internal Revenue Service (IRS) through its website and publications, the author has concluded that there is no valid argument for why CBFNC should apply for a group ruling for tax-exempt status based on the following reasons:

- There is not a need for this action. *Tax Guide for Churches and Religious Organizations – benefits and responsibilities under the federal tax law*(i) published by the Internal Revenue Service clearly states, “Churches that meet the requirements of IRC section 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.”
- There is no number issued to show that a contribution to the organization is tax deductible. Businesses (churches) are issued an Employer Identification Number for all purposes where a number is needed. There is no distinctive numbers given charitable organizations, including churches. New numbers are not issued when you receive 501(c)(3) status.
- Applying for the group ruling would be expensive. Filing fee is currently \$900 plus an undeterminable cost for labor to gather and submit the required information.
- Creation of a group that would meet IRS requirements for a tax-exempt group would violate the principle of Church autonomy. Churches would have to agree that they were subordinate organizations under general supervision or control of CBFNC.
- Maintaining group determination would be expensive and difficult to accomplish. Annual reports to IRS are required 90 days before the end of the accounting year (all churches would have to operate on the same accounting year as CBFNC).

Discussion of Group Determination Letter for Churches and Religious Organizations

The issue of the perceived need for CBF of North Carolina, Inc. (CBFNC) to apply for a group determination letter of tax-exempt status has recently arisen as churches are looking at changing their affiliation from other organizations to CBFNC. These churches are concerned that they need either to file for 501(c)(3) recognition individually or be covered under the umbrella of an organization that has obtained a group determination letter from IRS.

In an effort to help churches understand their situation concerning tax-exempt status and the ability to receive tax-deductible contributions, CBFNC is pleased to provide the following information gleaned from Internal Revenue Service (IRS) publications and forms. The publications and forms may be downloaded directly from the IRS website utilizing the links listed at the end of this document. This document should not be interpreted as a legal opinion.

The following information comes primarily from the *Tax Guide for Churches and Religious Organizations – benefits and responsibilities under the federal tax law*⁽ⁱ⁾ published by the Internal Revenue Service (IRS).

Tax-Exempt Status

The Tax Guide makes it very clear that churches qualify for exemption from federal income tax under IRC section 501(c)(3) and are generally eligible to receive tax-deductible contributions. To qualify for tax-exempt status, a church must meet the following requirements:

- be organized and operated exclusively for religious, educational, scientific, or other charitable purposes.
- net earnings may not inure to the benefit of any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the church may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

Recognition of Tax-Exempt Status

Automatic Exemption for Churches

Churches that meet the requirements of IRC section 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.

Church Exemption Through a Central/Parent Organization

A church is recognized as tax exempt if it is included in a list provided by the parent organization. The parent is then required to submit an annual group exemption update to the IRS in which it provides additions, deletions, and changes within the group. For general information on the group exemption process, see Revenue Procedure 80-27, 1980-1 C.B. 677⁽ⁱⁱ⁾. Revenue Procedure 96-40, 1996-2 C.B. 301⁽ⁱⁱⁱ⁾, modifies this procedure.

Organizations that could be included in a group exemption letter, in this case churches, defined in Revenue Procedure 80-27, 1980-1 C.B. 677⁽ⁱⁱ⁾, violates our principle of the Autonomy of the Local Church.

SECTION 3. DEFINITIONS

.02 A central organization is an organization that has one or more subordinates under its general supervision or control.

Some of the requirements for inclusion under Revenue Procedure 80-27, 1980-1 C.B. 677⁽ⁱⁱ⁾ emphasize that top-down authority is required.

SECTION 4. REQUIREMENTS FOR INCLUSION IN A GROUP EXEMPTION LETTER

.01 A central organization applying for a group exemption letter must obtain recognition of its own exempt status.

.02. It must also establish that the subordinates to be included in the group exemption letter are:

- 1. Affiliated with it;*
- 2. Subject to its general supervision or control;*
- 5. All on the same accounting period as the central organization if they are to be included in group returns*

SECTION 5 of Revenue Procedure 80-27, 1980-1 C.B. 677⁽ⁱⁱ⁾ requires, among other things, that the principal officer of the central organization provide a signed letter setting forth or including as attachments information verifying the existence of the relationships required by section 4.02 (See above for examples).

SECTION 6 of Revenue Procedure 80-27, 1980-1 C.B. 677⁽ⁱⁱ⁾ requires annual reports that would be difficult to file in a timely manner (90 days prior to the end of the accounting year) and would require considerable time and effort.

Applying for Tax-Exempt Status

Employer Identification Number (EIN)

Every tax-exempt organization, including a church, should have an employer identification number (EIN), whether or not the organization has any employees.

Application Form

Organizations, including churches and religious organizations, that wish to be recognized as tax exempt under IRC section 501(c)(3) must use Form 1023. A church may obtain recognition of exemption for time periods prior to the date of its request for tax-exempt status, even if it does not submit its application within 27 months of formation.

Cost for applying for exemption. The IRS is required to collect a non-refundable fee from any organization seeking a determination of tax-exempt status under IRC section 501(c)(3). Although churches are not required by law to file an application for exemption, if they choose to do so voluntarily, they are required to pay the fee for determination.

The fee must be submitted with Form 1023; otherwise, the application will be returned to the submitter. Fees are listed on IRS Form 8718, *User Fee for Exempt Organization Determination Letter Request*^(iv) which is used to transmit both the appropriate fee and the application for exemption. The current fees are:

- \$300 – an exempt organization with gross receipts averaging not more than \$10,000 during the preceding 4 years or a new organization anticipating not more than \$10,000 annually.
- \$750– an exempt organization with gross receipts averaging more than \$10,000 during the preceding 4 years or a new organization anticipating more than \$10,000 annually
- \$900 – Group exemption letters

IRS Approval of Exemption Application

If the application for tax-exempt status is approved, the IRS will notify the organization of its status, any requirements to file an annual information return, and its eligibility to receive deductible contributions. The IRS does not assign a special number or other identification as evidence of an organization's tax-exempt status.

NOTES:

⁽ⁱ⁾ ***Tax Guide for Churches and Religious Organizations – benefits and responsibilities under the federal tax law*** – Internal Revenue Service (IRS) offers this quick reference guide of federal tax law and procedures for churches and religious organizations to help them voluntarily comply with tax rules. The contents of this publication reflect the IRS interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. A copy of this publication is attached as TaxGuideChurchesPub1828.pdf or you can download from <http://www.irs.gov/pub/irs-pdf/p1828.pdf>.

⁽ⁱⁱ⁾ **Revenue Procedure 80-27, 1980-1 C.B. 677** – Sets forth updated procedures for recognition of exemption from federal income tax under section 501(c) of the Internal Revenue Code on a group basis for subordinate organizations. Highlighted copy is attached as RevProc80-27.doc or you can download from <http://www.irs.gov/pub/irs-tege/rp1980-27.pdf>.

⁽ⁱⁱⁱ⁾ **Revenue Procedure 96-40, 1996-2 C.B. 301** – Modifies Rev. Proc. 80-27, 1980-1 C.B. 677 by changing the address where group parent organizations are to send annual information returns. Copy is attached as RevProc96-40.pdf or you can download from <http://www.irs.gov/pub/irs-tege/rp96-40.pdf.pdf>.

^(iv) **Form 8718 (Rev. June 2006) User Fee for Exempt Organization Determination Letter Request** – Form used to transmit application for Group Exemption Letters and denotes fee of \$900 in paragraph 3 c for filing the application. A copy is attached as IRSform8718DetLtrReq.pdf or you can download from <http://www.irs.gov/formspubs/lists/0,,id=97817,00.html>.