



501c3 Status: Are You Ready?

By Carol L. Topp, CPA

The Internal Revenue Service (IRS) application for 501c3 tax exempt status is not an easy process. The form (Form 1023) is twenty-two 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 they decide the process was not worth it. The IRS's questions and requests for more data discourage them. Sometimes they cannot supply what the IRS is requesting such as by laws, board members' names, conflict of interest policies, accurate financial records, etc. In order to have success with the 501c3 application, you must have your "ducks in a row".

Here's a check list to see if your organization is ready:

- Do you have a Board of Directors, regular meetings and a method to elect the board?
- Do you have a Conflict of Interest policy?
- Do you have Articles of Incorporation and by-laws?
- 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 mission statement?
- Would you be willing to forgo any political candidate endorsements? (501c3 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 not ready for 501c3 application. Work to get your group ready and the process will go smoothly.

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