

When, Why, & How to Become a 501(c)(4)

Presented by



When and Why is seeking a
501 designation a good
choice for a civic league?

- At some point in a life of an organization there comes a point when a wall is hit where more wants to be accomplished but the ability to accomplish those goals can no longer be obtained.
- Everything revolves around money but money can be scarce. Having a 501 designation can help open some funding sources or allow some reduced expenditures that just are not available to non 501 designated organizations.

What is the difference between a 501(c)(3) and 501(c)(4)?

- Section of 1986 IRS code (Publication 557)

- **501(c)(3)** Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals Organizations.

- Activities of nature implied by description of class of organization

- **501(c)(4)** Civic Leagues, Social Welfare Organizations; and Local Associations of Employees.

- Promotion of community welfare; charitable, educational, or recreational

- Lobbying

- **501(c)(3)** limited to no more than 5-10 percent of organization's resources can be devoted to lobbying

- **501(c)(4)** limited to no more than 40 percent of organization's resources can be devoted to lobbying

- Contributions

- **501(c)(3)** deductible
- **501(c)(4)** not deductible. There are two exceptions: one is for donations to 501(c)(4) volunteer fire companies, and the other is for war veteran organizations (such as the VFW) — those donations ARE deductible. But otherwise, you can't deduct contributions to a 501(c)(4).
- Though businesses that make donations to a 501(c)(4) might be able to take a deduction as a *business* expense, such as an advertising expense, depending on the nature of the donation.

- Reduced Cost in Postage

- **501(c)(3)** eligible by filing form by completed PS Form 3624
- **501(c)(4)** not eligible

Qualifications for 501(c)(4) status

- Before you can take advantage of the tax benefits of 501(c)(4), you must ensure that the operational and financial activities of the organization satisfy IRS requirements.
- This code section is only applicable to civic leagues and other entities that operate exclusively to promote social welfare in the community or a group of employees within the same municipality, such as volunteer firefighter companies and homeowners' associations.

- Moreover, your organization's earnings must not provide its owners with payments of any profit. Rather, all funds must be reinvested in furthering the organization's nonprofit mission — which includes ordinary operating expenses, such as employee salaries and office rent.
- If these fundamental requirements of 501(c)(4) are satisfied, you should consider submitting an application for tax-exempt status with the IRS using Form 1024.

How does one apply for 501(c)(4)?

By filing out a brand new form 1024-A

You must be a corporation (including a limited liability company), an unincorporated association, or a trust to be tax exempt.

Are you a corporation?

If “Yes,” attach a copy of your articles of incorporation showing certification of filing with the appropriate state agency. Include copies of any amendments to your articles and be sure they also show state filing certification.

Are you a Limited Liability Company (LLC)?

If “Yes,” attach a copy of your articles of organization showing certification of filing with the appropriate state agency. Include copies of any amendments to your articles and be sure they show state filing certification. Also, if you adopted an operating agreement, attach a copy, along with any amendments.

Are you an unincorporated association?

If “Yes,” attach a copy of your articles of association, constitution, or other similar organizing document that is dated and includes at least two signatures, include signed and dated copies of any amendments.

Are you Trust?

If “Yes,” attach a signed and dated copy of your trust agreement. Include signed and dated copies of any amendments. If you are a trust, enter the date the trust was funded. (MM/DD/YYYY)

Use an attachment to describe all of your past, present, and planned activities in a narrative (including the percentage of time and funds spent on these activities). Refer to the instructions for information that must be included in your description.

You may attach representative copies of newsletters, brochures, or similar documents for supporting details to this narrative.

List the names, titles, and mailing addresses for all of your officers, directors, and trustees.

Financial Data

The statement of Revenue and Expenses must be completed for the current year and each of the 2 years immediately before it. (or the years the organization has existed, if less than 3 years).

Any applicant that has existed for less than 1 year must give financial data for the current year and proposed budgets for the following 2 years.

Financial Data (continued)

The balance sheet must be completed for your most recently completed tax year.

Procedural Checklist

_____ Make sure the application is complete.

If you do not complete all applicable parts or do not provide all required attachments, we may return the incomplete application for the organization to resubmit with the missing information or attachments. This will delay the processing of the application and may delay the effective date of your organization's exempt status. The organization may also incur additional user fees.

Procedural Checklist (continued)

Have you . . .

_____ Attached Form 8718 (User Fee for Exempt Organization Determination Letter Request) and the appropriate fee?

_____ Prepared the application for mailing? (See Where To File addresses in Form 8718.)

_____ Completed all parts of the application?

Procedural Checklist (continued)

_____ Shown your organization's Employer Identification Number (EIN)?

a. If your organization has an EIN, write it in the space provided.

b. If this is a newly formed organization and does not have an Employer Identification Number, obtain an EIN.

See Specific Instructions, Part I.

Procedural Checklist (continued)

_____ If applicable, described your organization's specific activities as directed in Part III of the application?

_____ Included a conformed copy of the complete organizing instrument? (Part II of the application.)

_____ Had the application signed by one of the following:

a. An officer or trustee who is authorized to sign (for example, president, treasurer); or

b. A person authorized by a power of attorney (submit Form 2848 or other power of attorney)?

Procedural Checklist (continued)

_____ If applicable, enclosed financial statements (Part VI)?

a. Current year (must include period up to within 60 days of the date the application is filed) and 2 preceding years. If the organization has been in existence less than 1 year, it must submit proposed budgets for 2 years showing the amounts and types of receipts and expenditures anticipated.

b. Detailed breakdown of revenue and expenses (no lump sums).

Procedural Checklist (continued)

Note: During the technical review of a completed application, it may be necessary to contact the organization for more specific or additional information.

Do not send this checklist with the application.

What does it cost?

Must use IRS Form 8718

- An exempt organization that has had annual gross receipts averaging not more than \$10,000 during the preceding 4 years, or ●

A new organization that anticipates gross receipts averaging not more than \$10,000 during its first 4 years

The cost is \$150.00

- An exempt organization that has had annual gross receipts averaging more than \$10,000 during the preceding 4 years, or

- A new organization that anticipates gross receipts averaging more than \$10,000 during its first 4 years

The cost is \$465.00

How long does it take?

- After you submit Form 1024-A
 - The IRS will acknowledge receiving your application in writing. Usually within 21 days of the postmark date of the Form 1024-A.
 - Generally they assign applications in the order we receive them. Unless the application is approved for expediated processing, it will be worked in the order received

3 Possible Outcomes after submitting application

- The IRS review concludes that you qualify and they will send you a letter stating that you are exempt under section 501(c)(4)
- The IRS review concludes that they need additional information or changes. This will be done by phone or letter. Examples of the types of questions you may be asked are available at [IRS.gov](https://www.irs.gov)
- The IRS review concludes that you do not qualify for exemption and they will send you a letter that explains their position and your appeal rights.

What is required to maintain it?

Filing an annual report with the Internal Revenue Service

- **Filing out Form 990-N**

- Must be a tax-exempt organization other than a private foundation or political or foreign organization whose gross receipts are normally \$50,000.00 or less

- **To e-file Form 990-N**

- Go to irs.gov/charities
- Type 990-N in the search box
- Click on the link for the Form 990-N

- **Filing out Form 990-EZ**

- Must be a tax-exempt organization other than a private foundation or political or foreign organization whose gross receipts are less than \$200,000.00 and total assets are less than \$500,000

- **Filing out Form 990**

- Must be a tax-exempt organization other than a private foundation or political or foreign organization whose gross receipts are greater than \$200,000.00 or total assets are greater than or equal to \$500,000

These two forms will not be discussed here today.

Form 990-N filing due date

Form 990-N is due every year by the 15th day of the 5th month after the close of your [tax year](#). **You cannot file the *e-Postcard* until after your tax year ends.**

Example: If your tax year ended on December 31, the *e-Postcard* is due May 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

If your 990-N is late, the IRS will send a reminder notice to the last address we received.

While there is no penalty assessment for filing Form 990-N late, organizations that fail to file required Forms 990, 990-EZ or 990-N for three consecutive years will [automatically lose their tax-exempt status](#). Revocation of the organization's tax-exempt status will happen on the filing due date of the third consecutively-missed year. Watch this IRS [YouTube presentation](#) for more information.

- Completing the e-Postcard requires the eight items listed below:
1. [Employer identification number](#) (EIN), also known as a Taxpayer Identification Number (TIN).
 2. [Tax year](#)
 3. Legal name and mailing address
 4. Any other names the organization uses
 5. Name and address of a principal officer
 6. Web site address if the organization has one
 7. Confirmation that the organization's annual [gross receipts](#) are \$50,000 or less
 8. If applicable, a statement that the organization has terminated or is terminating (going out of business)

What are some examples of its value?

- For EOVCCL having 501(c)(4) status also allows us to receive cheaper rates for certain goods and services such as printing the newsletter.
- Most government entities (libraries, colleges, schools, rec centers) will rent space or provide a service (custodians at a non-profit event, police for traffic direction, etc.) at reduced rates to non-profits.
- Sometimes private entities will as well, but most private entities are for profit themselves so they aren't interested in reducing their rates.

Questions?

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