TAX, IRA and EIN INFO

ESTABLISHING A 501(C)(3)

A 501(c)3 organization is a type of nonprofit corporation classified by the IRS as either a "public charity" or a "private foundation."

What distinguishes nonprofits is not whether they can make surplus income, but rather what is done with any "profit." A for-profit company that generates net revenue can choose to distribute those profits to owners and shareholders, executives, and employees. Nonprofit organizations don't exist to earn money for owners, stakeholders or employees. In fact, distribution of profits is strictly prohibited, and must be used to further the mission of the organization. This distinction, not the ability to generate a profit, is a major difference between nonprofits and for profits. As a result of its qualification as a 501(c)(3) organization, this type of nonprofit is able to receive tax-deductible charitable contributions, and is exempt from business income and property taxes. (Please check requirements specific to your state.)

To apply for recognition of tax-exempt, public charity status, obtain Form 1023 (application) and Publication 557 (detailed instructions) from the local IRS office. The filing fee depends upon the size of the organization's budget. The application is an important legal document, so it is advisable to seek the assistance of an experienced attorney when preparing it. Both of these documents can be downloaded from IRS web site at http://www.irs.gov/charities/index.html.

INTERNAL REVENUE SERVICE FILING MANDATE

The Internal Revenue Service (IRS) requires all charities, many of which previously were not required to file tax returns, to submit an annual electronic notice.

The new Form 990-N, entitled the *Electronic Notice for Tax-Exempt Organizations Not Required to File Form 990 or 990-EX* (and also known as the e-Postcard) is required of charities whose annual gross receipts are $25,000 or less.

The Pension Protection Act also requires the IRS to **revoke the tax-exempt status of any organization that fails to meet its annual filing requirement for three consecutive years**. This requirement applies to small tax-exempt organizations and the new e-Postcard. **Visit www.irs.gov, and look under Charities and Non-profit menu.**

Each department needs to make a written, DEC adopted, policy decision on how Units will be monitored and what, if any, sanctions will be applied to Units that do not comply.

Some departments have the unit electronic filings done by the department headquarters staff for units who may not have apparent access to a computer. While that may be a viable solution, each department will need to determine their legal liability risks and the added work load on staffs that may already be over loaded.

APPLYING FOR A FEDERAL EMPLOYEE IDENTIFICATION NUMBER

Regardless of whether or not you have employees, ***nonprofits are required to obtain a federal Employee Identification Number*** (EIN) — also referred to as the Federal ID number. Available from the IRS, this number is used to identify the organization when tax documents are filed and is used not unlike an individual's Social Security number. If you received your number prior to incorporation, you will need to apply for a new number under the corporate name. Ask for Form SS-4 when applying for your EIN.