

FAQ Series: Nonprofit/501(c)(3) Status

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UUA Office of Church Staff Finances

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Topic: Nonprofit/ 501(c)(3) Status

Question: Can the UUA help clarify the nonprofit (501(c)(3) status of congregations?

Overview: Churches/Congregations and many other religious organizations, if they meet the basic requirements of IRS Section 501(c)(3) (see below), are automatically considered a nonprofit organization and do not need to obtain such determination from the U.S. Internal Revenue Service. As such, contributions are tax-deductible to donors, and congregations must comply with rules governing nonprofits. However, there are reasons for congregations to seek their own Determination Letter from the IRS. This FAQ explores the circumstances congregations might apply for their own Determination Letter along with the process.

Why might a Congregation apply for their own IRS Determination Letter? There are several reasons for congregations to obtain their own IRS Determination Letter. First, some grant-making organizations require recipients to have their own IRS Determination. Also, some employers who match employee donations require listing in the IRS database (<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>) which requires IRS Determination. Second, there are organizations that give away computer software to qualified nonprofits. Usually these vendors require a Determination Letter. A few congregations have been successful in getting free or reduced software from TechSoup using the UUA Letter of Good Standing described below. Third, every year one or more congregations decide to call a minister, or hire a religious educator or interim minister who is Canadian or otherwise a non-citizen. In order to sponsor an R-1 (Nonimmigrant Religious Worker) visa for a non-citizen, the Congregation must have its own Determination Letter. The US Citizenship and Immigration Services (USCIS) *will not* process the visa paperwork without it.

Aren't Congregations covered by the UUA's Determination? The simple answer is No. While the UUA does have its own IRS Determination Letter, it is not an umbrella or group Determination. Congregations can not use the UUA Determination Letter.

Doesn't the UUA provide Congregations with a Letter regarding nonprofit status? Yes, the UUA does provide a letter to Congregations that explains that the UUA is a designated nonprofit organization, the Congregation is a member in good standing of the UUA, and that federal law conveys automatic nonprofit status to churches. Sometimes this letter is accepted as proof of nonprofit status by vendors (e.g. TechSoup) or state/local government agencies. To obtain this Letter, send your request to Stephanie Carey Maron at SCarey@uua.org.

Is the IRS Determination Letter the same as the EIN (Employer Identification Number)? No. The EIN, issued by the IRS, is used for employment and tax-related transactions, opening a bank account, and other business-related concerns. In filing for an IRS determination, you will not receive a number, but the IRS will issue a Determination Letter.

How to Apply for an IRS issued Determination Letter: If your congregation wishes to apply for its own Determination Letter, it will cost approximately \$600 and take between two months and a year to process. For an additional fee, you can request expedited processing. You can find many of your questions answered by The Foundation Group at: <https://www.501c3.org/frequently-asked-questions/>. Applying isn't particularly difficult.

The hardest part of the process is gathering all the documents required by IRS Form 1023 and Schedule A.

Step by Step Filing Process:

- Review the Instructions for IRS Form 1023 or Form 1023-EZ (Note: Established congregations will likely need to file Form 1023)
- Assemble the documents required by IRS Form 1023:
 - Form 1023 Schedule A requires:
 - Summary of Beliefs
 - Religious History
 - Sample of brochures describing Unitarian Universalism and your Congregation
 - Description of UU Polity (Governance)
 - Description of Worship along with sample orders of service and schedule of worship services
 - Number of Members/Average worship attendance
 - Location of Worship Services
 - Description of educational/training requirements of ministers
 - Dissolution Provision
 - Organizing Document/Bylaws/Articles of Incorporation (if applicable)
 - Narrative Description of Activities/Organizational History
 - Financial Disclosures/Statement of Revenues and Expenses/Balance Sheet
 - Application Fee (As of July 2019, this amount is \$600)
- Determine whether you wish regular processing or expedited review (additional fee)
- You might explore having a local attorney, experienced with nonprofits, review your paperwork to ensure your application is complete. Otherwise there may be an additional delay.
- Most non-church nonprofits must file the informational Form 990-T annually. Congregations are largely exempt from filing Form 990-T unless they have more than \$1,000 in Unrelated Business Income. The 2017 Tax Law imposed additional UBIT taxes on nonprofits including churches (such as parking lot and commuter taxes).

General Criteria for Tax-Exempt Status (again, by law, churches are already tax-exempt):

- i) The organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes;
- ii) Net earnings may not inure to the benefit of any private individual or shareholder;
- iii) No **substantial** part of its activity may be attempting to influence legislation;
- iv) The organization may not intervene in political campaigns; and
- v) The organization's purposes and activities may not be illegal or violate fundamental public policy.

Additional Resources

- IRS Publication 1828: Tax Guide for Churches and Religious Organizations (Comprehensive guide to tax-related issues)
- IRS Form 1023 and Instructions
- IRS Publication 598: Tax on Unrelated Business Income of Exempt Organizations
- Church and Clergy Tax Guide 2019, Richard Hammar, Chapter 12
- The Foundation Group: <https://www.501c3.org/frequently-asked-questions/>

The staff of the UUA Office of Church Staff Finances are not certified tax or legal professionals. While we understand the above information to be correct, we encourage congregations to seek the services of their own experts in dealing with individual circumstances and unusual cases.