



APPLYING FOR

&

RETAINING

A

501(c)3

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TEXAS CITIZEN POLICE ACADEMY ALUMNI ASSOCIATION



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What is a 501(c)3?

This is a designation issued by the Internal Revenue Service that enables your CPA Alumni Association to operate as a non-profit organization. Organizations described in section 501(c)(3) are commonly referred to as *charitable organizations*. To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be [organized](#) and [operated](#) exclusively for [exempt purposes](#) set forth in section 501(c)(3), and none of its earnings may [inure](#) to any private shareholder or individual. In addition, it may not be an [action organization](#), i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates. Organizations described in section 501(c)(3), are eligible to receive tax-deductible [contributions](#) in accordance with Code section 170. Having the 501(c)3 status enables your organization to accept donations from companies and others who would otherwise not be willing to give you money. It is a tax deductible item for them which make for more willingness to make a donation.

Do you need to get a 501(c)3?

If your association is going to solicit contributions to assist your law enforcement agency, you need to be 501(c)3 for the contributor to be able to deduct their contribution on their tax return. For this reason your association must have this non-profit designation.

Additionally, Federal tax law provides tax benefits to nonprofit organizations as exempt from federal income tax under section 501(c)3 of the Internal Revenue Code (IRC). It requires that most organizations apply to the Internal Revenue Service (IRS) for that status.

Are you eligible for 501(c)3 status?

To be eligible for exemption from federal income tax a not-for-profit organization must be [organized](#) and [operated](#) exclusively for one or more exempt purposes:

Organized – A 501(c)3 organization must be organized as a corporation, trust, or unincorporated association. An organization's organizing documents (articles of incorporation) must:

- Limit its purposes to those described in section 501(c)3 of the IRC;
- Not expressly permit activities that do not further its exempt purpose(s), i.e., unrelated activities; and
- Permanently dedicate its assets to exempt purposes.

Operated – Because a substantial portion of an organization's activities must further its exempt purpose(s), certain other activities are prohibited or

restricted including, but not limited to, the following activities. A 501(c)3 organization:

- must absolutely refrain from participating in the political campaigns of candidates for local, state, or federal office;
- must restrict its lobbying activities to an insubstantial part of its total activities;
- must ensure that its earnings do not inure to the benefit of any private shareholder or individual;
- must not operate for the benefit of private interests such as those of its founder, the founder's family, its shareholders or persons controlled by such interests;
- must not operate for the primary purpose of conducting a trade or business that is not related to its exempt purpose; and
- must not have purposes or activities that are illegal or violate fundamental public policy.

Exempt Purpose – To be tax exempt, an organization must have one or more exempt purposes stated in its organizing document. Among those listed under IRS section 501(c)3 that would apply to our alumni associations are: *charitable* and *educational*.

Public Charities and Private Foundations

Every organization that qualifies for tax-exempt status under section 501(c)3 of the IRC is further classified as either a public charity or a private foundation. The primary distinction between the two depends on the organization's source of financial support. Generally our alumni associations are classified as public charities because we receive a substantial part of our support in the form of contributions from publicly supported organizations, governmental units, and/or from the general public. We normally receive more than one-third of our support from contributions, membership fees, and gross receipts from activities related to our exempt functions and less than one-third of support from gross investment income.

PROCEDURE FOR GETTING YOUR 501(c)3

Before applying for your 501(c)3 you should already have in place:

- your association's bylaws which have been approved by your membership;
- your Certificate of Formation. This is Form 202 (Certificate of Formation – Nonprofit Corporation) which can be obtained online from the Texas Secretary of State;
www.sos.state.tx.us/corp/forms_boc.shtml
There is a \$25 filing fee for this.
- your Federal Employee Identification Number (EIN). This is your account number with the IRS and is required regardless of whether the organization has employees. Apply for an EIN by completing Form SS-4 (Application for Employer Identification Number), or by calling toll-free (866) 816-2065, or by submitting an online version of the form via www.irs.gov. DO NOT APPLY for an EIN until your organization is legally formed. Applying for an EIN signals to IRS computer systems that an organization has been created, and therefore triggers filing requirements.

Types of Applications:

Form 1023 – This is the standard form which most organizations had to use. However, in June, 2014, the IRS adopted a new 1023-EZ form which most, if not all, newly forming alumni associations may be eligible to use.

Form 1023-EZ - Small organizations may file Form 1023-EZ, *Streamlined Application for Recognition of Exemption Under Section 501(c)3 of the Internal Revenue Code* instead of Form 1023. This form must be filed electronically. To determine if you are eligible to file Form 1023-EZ you must complete the Form 1023-EZ Eligibility Worksheet. This will be found beginning on page 13 of the *Instructions for Form 1023-EZ*. If you answer NO to ALL of the worksheet questions, you may apply using Form 1023-EZ.

User Fee – A user fee of \$275 is required to process your application. This fee must be paid through www.pay.gov when you file your application. Note: The \$275 fee was reduced from \$400 effective July 1, 2016.

Form 1023- Interactive – If you are not eligible to file Form 1023-EZ and must use the longer Form 1023, it may help to file using Form 1023-Interactive. This form includes helpful hints and links to help applicants submit a complete application.

If you want the IRS to be able to provide information about your application to someone other than a principal officer or director to represent your alumni on matters about the application, you may need to file Form 2848, Power of Attorney and Declaration of Representative, and Form 8821, Tax Information Authorization.

As noted above, most newly formed organizations will probably be eligible to file Form 1023-EZ. This is a much easier form to use, and because it is filed electronically you do not need to send the additional documents (copies of Bylaws, Articles of Incorporation, etc.) because you are attesting on the 1023-EZ form that you have them and that they contain the nomenclature as required by 501(c)3 regulations. BE ABSOLUTELY POSITIVE THAT YOU HAVE THESE DOCUMENTS AND CAN PRESENT THEM IF REQUESTED.

NOTE: If using the 1023-EZ form, in PART III, Line 1, the correct NTEE code for our alumni associations is: I03 (that's the letter I and numbers 03). See the back pages of the 1023-EZ instructions.

Determination Letter

The IRS specialist reviewing an application may request additional information in writing. If all information received establishes that an organization meets the requirements for exemption, the IRS will issue a determination letter recognizing the organization's exempt status and providing its public charity classification. THIS IS AN IMPORTANT DOCUMENT THAT SHOULD BE KEPT IN THE ORGANIZATION'S PERMANENT RECORDS. You should make several copies because donors and others may ask to see your determination letter to prove that you are officially non-profit.

Form W-9 – You may also wish to keep on hand copies of Form W-9, *Request for Taxpayer Identification Number and Certification*. This form provides your EIN to donors, if they request it, and provides proof that their donation is tax-deductible.

KEEPING YOUR 501(c)3 NON-PROFIT STATUS

Once your organization receives its Letter of Determination from the IRS you are officially 501(c)3. YOU DO NOT WANT TO LOSE YOUR NON-PROFIT STATUS!

There are many reasons why that could happen. Because a substantial portion of an organization's activities must further its exempt purpose(s), certain other activities are prohibited or restricted, including, but not limited to, the following activities. A 501(c)3 organization:

- must absolutely refrain from participating in the political campaigns of candidates for local, state, or federal office
- must ensure that its earnings do not inure to the benefit of any private shareholder or individual
- must not operate for the benefit of private interests such as those of its founder, the founder's family, its shareholders or persons controlled by such interests
- must not operate for the primary purpose of conducting a trade or business that is not related to its exempt purpose
- must not have purposes or activities that are illegal or violate fundamental public policy, **AND**

THE NUMBER ONE REASON OUR ASSOCIATIONS LOSE THEIR 501(c)3 STATUS:

- **FAILING TO ANNUALLY FILE ONE OF THE REQUIRED 990 SERIES REPORTS**

Why does this happen? Usually it's because when new officers are elected the filing requirement is not passed on as a duty of whatever office or person is to be responsible (usually the Treasurer, but it could be anyone).

This means that your alumni must file either:

- Form 990
- Form 990-EZ, or
- Form 990-N (e-Postcard)

Most small tax-exempt organizations whose annual gross receipts are normally \$50,000 or less (this changed in 2010 from \$25,000) are required to electronically submit Form 990-N, unless they choose to file a complete Form 990 or 990-EZ instead.

An organization that fails to file one of the required forms for three consecutive years will automatically lose its tax-exempt status, effective on the filing deadline of that third year. But don't take that chance. You have 5 ½ months from the end of your fiscal year to file. For example, if your tax year ended on December 31, the report is due by or before the next May 15. If your year ends January 31, the due date is June 15, and so on. However, you cannot file the report until after your tax year ends.

What is meant by gross receipts of \$50,000 or less?

Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses (this includes membership dues).

An organization's gross receipts are considered to be \$50,000 or less if the organization:

- has been in existence for 1 year or less and received, or donors have pledged to give, \$75,000 or less during its first taxable year;
- has been in existence between 1 and 3 years and averaged \$60,000 or less in gross receipts during each of its first two tax years; and
- is at least 3 years old and averaged \$50,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which calculations are being made).

SUMMARY

IT CANNOT BE OVEREMPHASIZED THAT YOU DO NOT WANT TO LOSE YOUR 501(C)3 NON-PROFIT STATUS !! Getting re-instated may result in filing additional paperwork and you will have to submit a new application and pay another filing fee. Also you will probably have to provide good reason for having lost it.

The IRS website provides many links concerning obtaining and keeping non-profit status for exempt organizations (www.irs.gov/eo). You can also download the necessary forms and instructions for each.

If you have questions, use the website; go to the Help & Resources page where you can go live with an Interactive Tax Assistant with your question. Or check out the Frequently Asked Questions section. Or simply give them a call; believe it or not, they are willing to help.

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