

Getting Started With the 501(c)3 Process

Whenever a church is formed there are a few things that need to be done to ensure that the church can stand on its own for years to come. One such thing is becoming a 501(c)3 organization. This article will cover the basics of 501(c)3 and give some guidance on how to perform this process.

Wikipedia defines 501(c)3 as a tax law provision granting exemption from the federal income tax to non-profit organizations. In laymen terms this means that a church with 501(c)3 status does not have to pay sales taxes and can accept charitable donations. Individuals donating to a church with 501(c)3 status are able to deduct the contribution on their tax returns.

In order to qualify for 501(c)3 your church must follow the guideline for exempt purpose. The IRS defines exempt purpose as set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term charitable is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

So you are a church and you are ready to begin the process what steps should you take? More than likely you should seek the advice of an attorney. There are some attorneys that would assist you for free “pro bono”. The first step would be file articles of incorporation which would set up the church as a business entity. Please consult your local state government for more information regarding incorporation. You may refer to this link for your local state ([IRS Incorporation](#)).

The USDA provides a good starting point for apply for a 501(c)3 status. I will repost it here, adding comments from my research, for convenience sake you can find the entire link at the end of this article in the reference section.

Step 1 Prepare for the process:

- Budget \$500 (this number can be as low as \$150 and as high as \$750) for the application fee.
- Obtain Tax ID Number using form IRS Form SS4: Application for Employee Identification Number.
- Develop a budget for the next two years. Remember even though you are a church, a church is still considered a business.
- Prepare bylaws and articles of incorporation. These may be modified versions of the bylaws and articles of incorporation other similar organizations have submitted to the IRS in their 501(c)3 applications.



- Designate a committee of “incorporators” who will have primary responsibility for developing by-laws and dealing with preparation of other documents for the IRS application.
- Parties and their incorporators will develop and approve the by-laws and the rules governing how candidates will run for and serve on the Executive Board.
- Incorporators will not automatically become Executive Board members of the non-profit, but must run for their positions just as required of all Executive Board candidates.
- File articles of incorporation with Probate Judge.
- When incorporation paperwork is received and bylaws are written, file for 501(c)3 status with the IRS.

Step 2 Compile documents for application to submit to IRS:

- Form 8718: User Fee for Exempt Organization Determination Letter Request (this form is basically a cover page for your application).

Complete relevant parts 1-4 of form 1023, the Application for Recognition of Exemption. Depending upon the kind of exempt organization the organization chooses to be, you will be using different schedules on form 1023.

- Financial statements and budgets.
- Bylaws.
- Incorporation documents.
- Signatures.

Check in the appropriate amount for your fees (\$varies).

Step 3 Form 1023 requirements:

Part 1: Administrative information, address (cannot be a PO Box), attach incorporation document, bylaws and articles, signature by officer.

Part 2: Describe activities in detail. Must specify that your organization is not financially accountable to another organization or involved in politics or influencing legislation.

Part 3: Administrative information. Examine the application and fill out relevant “schedules” according to any special activities of your Council.

Part 4: Financial statements. May want to base this on a template developed by an accountant or one used by other similar organizations in their non-profit status applications.

All forms are available on the IRS website at www.irs.gov. To find the correct amount for user fees and the length of time to process a request call OWL Risk Management Consulting, LLC at 1.866-579-7475 for assistance from our 501(c)3 consultants or email us today at 501c3@owlrisk.com.



By no means is this an easy task that can be completed overnight. But with a little patience and understanding the process does not have to force you to pull your hair out. Every church at some point has to go through this process. Hopefully this article will start you off with a good foundation to begin your journey.