

5 Tips for Nonprofits Filling Out IRS Form 1023

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Form 1023 and Tax-Exempt Status

In order to obtain tax-exempt status as a 501(c)(3) charitable organization, a corporation generally needs to file Form 1023 with the Internal Revenue Service (IRS). The form can be obtained from the IRS website, along with general instructions and answers to many common questions about obtaining tax-exempt status.

Despite the generous amount of information provided by the IRS to the public about how to become a 501(c)(3) organization, applications get denied relatively frequently. Sometimes, the errors are obvious and can be corrected easily, but oftentimes applications are denied based on technical violations due to rigid enforcement of Form 1023 regulations.

The following tips are based on common issues that we have either come across in our practice or heard about from other sources. These tips do not guarantee that your Form 1023 submission will be accepted, but they may at least alert you to problems you had not previously considered.

1. Attach the Correct User Fee

The IRS says this is the number one reason applications are denied. The required amounts are updated annually and can be found on the IRS website.

2. Use the Proper Language in Your Corporation's Certificate of Formation

This is why I usually recommend that a group of aspiring nonprofit directors involve an attorney in their process from the start. Mistakes made on Certificates of Formation can be expensive and time-consuming to fix, so do yourself a favor and get it right the first time.

3. Attach Required Company Documents

All corporations submitting Form 1023 are required to attach the following documents to their applications:

- Certified copy of the certificate of formation;
- Copy of bylaws (if adopted);
- Detailed financial income and expense statements (past or projected, depending);
- Narrative of planned activities explaining the public benefit of those activities;
- Names and addresses of directors and officers and their annual compensation;
- Annual accounting period; and
- EIN.

Failure to attach the above documents, when required, will result in denial of your application.

4. Put Organization's Name and EIN on All Supplements

This is one of those tedious details that can result in applications for tax-exempt status being denied or, at the very least, unnecessarily delayed. If you are required to attach supplement sheets, either because you ran out of room on Form 1023 to complete your answer or no room was provided, make sure those sheets have your company's name and EIN listed on top - easy to do up front, hard to fix later.

5. Attach Required Schedules and Supplements

Depending on what type of organization you are operating, you may need to fill out additional Schedules besides Form 1023. For example, hospitals are required to fill out Schedule C and colleges must complete Schedule B. Even if your organization is not required to fill out any additional Schedules, you will need to attach supplement sheets in order to fully address the questions detailed in Form 1023.

Conclusion

Operating a nonprofit organization can be an exciting, fulfilling task. Reading the checklist attached to Form 1023 and sticking to these tips will help ensure that your vision is not bogged down by this notorious form. Above all else, take your time when filling out the form and do not be afraid to get as many eyes on your application as possible before final submission.

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