CHURCH FINANCIAL CONFERENCE INTENSIVE

TAX EXEMPT CONSIDERATIONS

CAPINCROUSE
A DIVISION OF Carr, Riggs & Ingram

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CHURCH FINANCIAL CONFERENCE

UNDERSTANDING 501(C)(3) TAX-EXEMPT STATUS

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CHURCHES ARE NOT COMPLETELY EXEMPT FROM TAXES

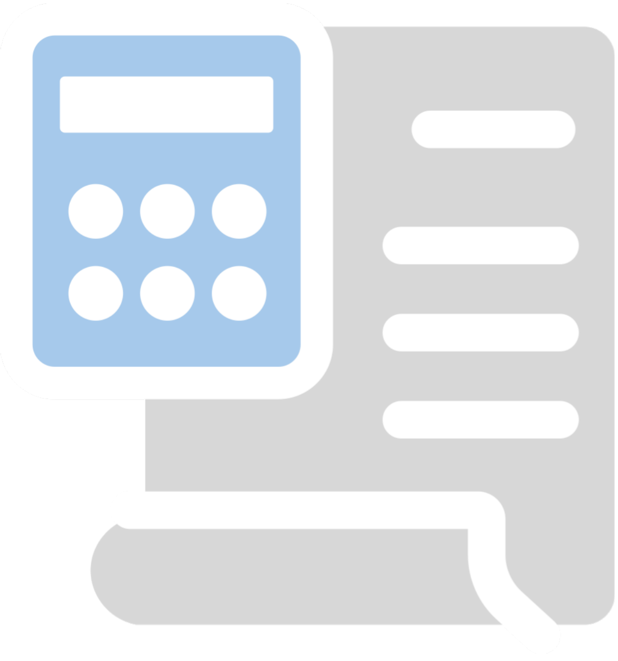
- Receiving tax-exempt status from the federal government simply exempts a church from paying federal (and, in most cases, state) income tax and allows it to accept tax-deductible contributions
- Sales and use tax, as well as property taxes, are specific to each state and vary significantly

It's important to understand the sales, use, and property tax laws and regulations in your state

OBTAINING TAX-EXEMPT STATUS: AUTOMATIC

- Churches that meet the 501(c)(3) requirements are automatically considered tax exempt and are not required to obtain recognition of tax-exempt status from the IRS (see IRS Publication 1828, Tax Guide for Churches & Religious Organizations)

- Churches are also exempt from the annual filing of IRS Form 990, Return of Organization Exempt from Income Tax



OBTAINING TAX-EXEMPT STATUS: INDIVIDUAL CHURCHES

1

Establishing the church by officially constituting or incorporating

2

Filing Form 1023, Application for Recognition of Exemption, with the IRS and including the organizing documents

See IRS Publication 557, Tax-Exempt Status for Your Organization, or Publication 4220, Applying for 501(c)(3) Tax-Exempt Status.

OBTAINING TAX-EXEMPT STATUS: GROUP

Churches that do not want their own 501(c)(3) letter can be identified as a nonprofit if they are affiliated with a parent or central organization with a 501(c)(3) **Group Exemption Letter Ruling** from the IRS. (See IRS Publication 4573, Group Exemptions).

Churches affiliated with a specific Baptist State Convention often can request to be included in the Convention's group ruling (umbrella) and obtain a letter from the Convention if they meet specific membership requirements.

SBC

If the state/regional convention does not have a group exemption, the Southern Baptist Convention Executive Committee office maintains a group letter exemption ruling for which a church may qualify (**WWW.SBCEC.NET**).

BENEFITS OF OBTAINING OFFICIAL RECOGNITION OF 501(C)(3) STATUS

- Assures church leaders, members, and contributors that the church is tax exempt under section 501(c)(3) of the IRC and qualifies for related tax benefits
- Assists in obtaining eligibility for lower postal rates on bulk mailings through the USPS
- May be required to qualify for eligibility of some foundation grants

BENEFITS OF OBTAINING OFFICIAL RECOGNITION OF 501(C)(3) STATUS *cont.*

- May be useful in qualifying for potential property tax exemption in some states
- If applicable, may be useful (although not required) in obtaining sales and use tax exemption in some states †
- May be requested by some banks for lending purposes

*† **NOTE**: Rules vary by state, and not all states provide a sales tax exemption for churches.*

CHURCH FINANCIAL CONFERENCE

RECOGNIZING IRS PROHIBITIONS ON POLITICAL ACTIVITY

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IRS PROHIBITIONS ON POLITICAL ACTIVITY

- In recent years, the IRS has actively increased educational and compliance efforts aimed at 501(c)(3) religious organizations that may be violating legislative restrictions on political activity
- For over 70 years, certain tax-exempt organizations, including churches, have been prohibited from participating in or intervening in political campaigns on behalf of, or in opposition to, any candidate for public office †

† Penalties for political activity include potential excise taxes and, ultimately, the revocation of tax-exempt status (see IRS Publication 1828)

IRS PROHIBITIONS ON POLITICAL ACTIVITY *cont.*

- The main prohibitions that the IRS addresses are:

  Contributions to political campaigns (IRS Publication 1828). Public statements (by church leadership) of position in favor of or in opposition to a specific candidate in official church publications and at official church functions (IRS Publication 1828)

  Distribution of voter guides containing questions demonstrating a bias on certain issues (IRS Church Tax Guide)

  Endorsement of candidates (Internal Revenue News Release IR-96-23)

  Campaign activities by employees within the context of their employment (FSA 1993-0921-1)

IRS PROHIBITIONS ON POLITICAL ACTIVITY *UPDATE*

- In a July 2025 lawsuit settlement, the IRS said that churches can now endorse political candidates.

The IRS's position through the settlement is binding precedent only in the jurisdiction where the lawsuit was filed, the U.S. District Court for the Eastern District of Texas, Tyler Division. Its outcome applies only to the plaintiffs who brought the lawsuit.

The Internal Revenue Code currently remains unchanged.

While non-precedential, the IRS's announced position may be persuasive in other jurisdictions nationwide.

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QUESTIONS?

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