



Do's and Don'ts for Churches and Religious Organizations



“Church”

- Generally, place of worship - not defined in Internal Revenue Code
- Includes:
 - temples, mosques, synagogues, etc.
 - conventions and associations of churches
 - integrated auxiliaries of a church



Religious Organization

- Includes:
 - nondenominational ministries
 - interdenominational and ecumenical organizations
 - entities whose principal purpose is the study or advancement of religion



“Church”

Religious Organization

- Must comply with requirements of §501(c)(3)
- Form 1023 *not* required
- *Not* listed in Publication 78, unless Form 1023 filed
- Exempt from filing Form 990
- Cannot make lobbying election

- Must comply with requirements of §501(c)(3)
- Form 1023 required if gross receipts > \$5,000
- Listed in Publication 78
- Must file Form 990 or 990-EZ
- Can make lobbying election



Jeopardizing Tax Exempt Status

- Inurement and private benefit
- Substantial lobbying activity
- Political campaign activity



Lobbying

... attempting to influence legislation.

- Measurement methods
 - “Substantial Part” test - violation results in excise tax and revocation of exemption,
 - “Expenditure” test - violation results in excise tax and/or revocation of exemption
 - Only applicable to religious organizations - must make election on Form 5768.



Political Activity

Direct and indirect candidate support:

- Contributions
- Participation in campaigns
- Public statements for/against a particular candidate

Absolute Prohibition!



Unrelated Business Income

- Trade or business activity
 - Regularly carried on
 - Unrelated to exempt purpose



Unrelated Business Income - Exceptions

- Substantially all work performed by volunteers
- Activity conducted primarily for convenience of members
- Trade or business involves sale of donated merchandise



Unrelated Business Income - Examples

- Advertising
- Gaming activities
- Sale of merchandise & publications
- Parking lot for general public
- Rental income, if
 - Debt-financed
 - Personal property



Inurement/Private Benefit

- Inurement to insiders such as ministers, church board members, officers, employees, etc., is absolutely prohibited.
- Private benefit must be *incidental* to either insiders *or* outsiders.



Annual Filing Requirements

Church

Religious Organization

- Form 990 *not* required
- Form 990-T: gross income from unrelated trade or business ○ \$1,000
- Employment tax returns required for all employees *except* ministers
- Form 990-EZ or 990 required depending on gross receipts & assets
- Form 990-T: gross income from unrelated trade or business ○ \$1,000
- Employment tax returns required for all employees



Recordkeeping Requirements

- Must maintain records that:
 - Justify right to exemption
 - Enable filing accurate tax and information returns
- Includes:
 - organizing documents & bylaws, minute books, property records, general ledgers, member lists, offerings collected



Contact Information

- <http://www.irs.gov/eo>
 - for forms, publications or general information on exempt organizations.
- EO Customer Service (toll-free): 1 (877) 829-5500
 - for general questions or assistance with applications or exempt organizations forms.



Publications

- 517 - Social Security and Other Information for Members of the Clergy and Religious Workers
- 526 - Charitable Contributions
- 557 - Tax-Exempt Status for Your Organization
- 598 - Tax on Unrelated Business Income of Exempt Organizations
- 1771 - Charitable Contributions: Substantiation and Disclosure Requirements
- 1828 - Tax Guide for Churches and Religious Organizations
- 3079 - Gaming Publication for Exempt Organizations