

## The Benefits of Obtaining 501(c)(3) Tax Exemption

Nonprofit organizations that dedicate their resources to charitable, religious, scientific, or educational purposes may apply for 501(c)(3) federal tax exemption as a public charity. Successful 501(c)(3) public charity applicants enjoy many benefits not available to unclassified organizations. This fact sheet explains some of those benefits and briefly describes the 501(c)(3) application process.

501(c)(3) organizations:

- Do not pay federal corporate income tax except on income derived from unrelated business income. With this exemption, an organization can save 15% - 35% of its taxable income.
- In most instances, do not pay state corporate income, franchise, excise, use, and sales tax. The breadth of state tax exemptions varies state by state. Interested organizations should contact their state tax office to find out more.
- Can offer individual donors and corporate donors a tax deduction for their charitable donations. The possibility of a tax deduction is often an incentive for taxpayers who itemize their income tax deductions.
- Are eligible to receive private foundation grants. Private foundations are required by law to distribute a minimum amount of money for charitable purposes. One way they fulfill this obligation is by making grants to 501(c)(3) public charities.
- Are eligible for lower postal rates on third class bulk mailings through the US Postal Service.
- Can make the 501(h) election (with the exception of private foundations and churches, who may not make the 501(h) election). Under the federal tax code, all 501(c)(3) public charities are allowed to lobby. The 501(h) election provides clear guidance on the definition of lobbying for 501(c)(3) public charities and on how much money may be spent on lobbying.

The 501(c)(3) application process:

Any nonprofit organization organized and operated exclusively for charitable, religious, scientific, or educational purposes is eligible to apply for 501(c)(3) public charity status. The best place to begin the application process is to do some research on the IRS website: [www.irs.gov/eo](http://www.irs.gov/eo). In addition, IRS publication 4220 generally discusses the application process and provides some resources for assistance. After researching the overall process, interested organizations will have to file for state incorporation, apply for an Employee Identification Number (EIN), and file a 1023 form with the IRS.

A sample 1023 application for public charities who want to engage in advocacy may be found at: [http://www.afj.org/nonprofit/technical\\_resources/resources/connectionsamples.html](http://www.afj.org/nonprofit/technical_resources/resources/connectionsamples.html).

Good Luck!

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