



By Robert Goff

### **If you say you're a charity, what does the IRS say?**

One of Paducah's great annual festivals, Barbecue on the River, rapidly approaches.

Barbecue on the River is operated by Barbecue on the River, Inc., a corporation organized to operate exclusively for charitable purposes.

Each of the food vendors at the festival pairs with a nonprofit, which receives a portion of the proceeds from their food sales.

So, whether you're enjoying some tasty barbecue, or a cold beverage, ask the vendor about the charity and you will surely find a cause worthy of your support.

In addition to proceeds from an annual festival, donations from the public and corporate sponsors are an excellent way for nonprofits to raise money.

The nonprofits that are most successful at attracting public donations and corporate sponsors are those who have obtained the coveted 501(c)3 recognition from the Internal Revenue Code.

Nonprofits that have achieved that recognition are able to attract the most donations because donations to them are tax deductible. Donations to nonprofits that are not qualified under 501(c)3 are generally nondeductible.

Thus, 501(c)3 recognition is a must for a nonprofit seeking public donations.

In addition, nonprofits who have received Section 501(c)3 recognition may apply for sales tax exemption from the Kentucky Revenue Cabinet. Once such a nonprofit receives a letter from the Kentucky Revenue Cabinet recognizing its status, the nonprofit can present such letter when purchasing items to avoid paying sales tax.

If you are involved in operating a nonprofit, or a member of a nonprofit's board of directors, you are probably wondering whether your corporation has received 501(c)3 recognition and, if not, what that means for your organization. You may also wonder how you can obtain 501(c)3 recognition.

Determining whether your corporation has received the recognition is easy. First, ask your corporation's officers and directors whether they have a recognition letter from the Internal Revenue Service.

If your officers and directors cannot locate such a letter, visit [.irs.gov/app/pub-78/](https://www.irs.gov/app/pub-78/) and search for your corporation. If you can't find it, your corporation has not received 501(c)3 recognition.

If this is so, don't panic. Your corporation may still be tax exempt.

If it is tax exempt, it is still exempted from any income tax liability. However, donations to your corporation may not be deductible.

Before your corporation seeks 501(c)3 recognition from the IRS, you should be sure that it qualifies for exemption under 501(c)3.

Only corporations whose purposes are religious, charitable, scientific, literary, or educational or involve testing for public safety, fostering national, international amateur sports competition, or the prevention of cruelty to children or animals are eligible for 501(c)3 recognition.

Many nonprofits, such as social clubs and business leagues, simply do not qualify for 501(c)3 recognition because their purposes — although worthy of income tax exemption — do not fit within the purposes listed in the Internal Revenue Code section 501(c)3.

If you think that your corporation's purposes fit within section 501(c)3, you can file a form 1023 with the IRS seeking recognition under 501(c)3.

The form is about 30 pages and has a companion set of instructions that is 38 pages. Even though the instructions are lengthy, the applicant should read them carefully and the person completing it should refer to them in the event questions arise in completing the application.

The application should also be completed with care and attention to help ensure a smooth approval process. If the corporation's average annual gross receipts will not exceed \$10,000 over the four-year period following the application date, the application will cost \$300.

If the average annual gross receipts are more than \$10,000, the application will cost \$750. Turn around for an application is approximately six to nine months.

So, if you are an officer or a director of a nonprofit, while you are at Barbecue on the River, volunteering or just enjoying the festivities, consider whether obtaining 501(c)3 recognition will be beneficial for your organization.

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