

IRS Classification of Selected Tax-Exempt Organizations

Comparison of Section 501(c)(3), 501(c)(4) and 501(c)(7) Organizations			
Treatment	501(c)(3) – Public Charities and Private Foundations	501(c)(4) – Social Welfare Organizations	501(c)(7) – Social and Recreation Clubs
Some random examples of qualifying entities	Red Cross, Leukemia and Lymphoma Society, World Vision, Habitat for Humanity, Gates Foundation	Greater Memphis Soccer Association, Credit Education Bureau, Health Promotion Advocates, AARP Chapters	Country clubs, garden clubs, fishing clubs, fraternities and sororities
Applies to which entities associated with ACBL?	Charity Foundation Education Foundation (These are “public charities,” not “private foundations”)	ACBL Most Units and Districts	Some Units and Districts
What is the primary purpose of the organization?	Charitable, educational, scientific, literary, test for public safety, foster national or international sports competition, or prevent cruelty to children or animals	Social welfare, promotion of community welfare; charitable, educational or recreational, amateur sports that do not qualify as a 501c3	Recreation, pleasure, amateur sporting clubs, social activities. Must derive most of its income from members.
How to establish recognition of federal tax-exempt status?	File form 1023 with the IRS. (Mandatory)	File form 1024 with the IRS. (Optional)	File form 1024 with the IRS. (Optional)
Necessary founding documents to be a “tax-exempt” corporation?	Articles (or Certificate) of Incorporation and Bylaws	Articles (or Certificate) of Incorporation and Bylaws	Articles (or Certificate) of Incorporation and Bylaws
Necessary founding documents to be a “tax-exempt” unincorporated association?	Constitution and Bylaws.	Constitution and Bylaws.	Constitution and Bylaws.
Is an EIN necessary? See IRS Publication 557, Tax-Exempt Status for Your Organization. Download the publication at www.irs.gov/eo .	Every exempt organization must have an employer identification number (EIN) whether or not it has employees	Every exempt organization must have an employer identification number (EIN) whether or not it has employees	Every exempt organization must have an employer identification number (EIN) whether or not it has employees
Is the organization exempt from federal income taxes?	Yes	Yes	Yes
Is the organization exempt from federal FICA, FUTA, excise and other taxes?	It’s complex, consult your tax advisor.	No	No

Is the nonprofit corporation required to file an annual information return with the IRS?	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)
Is the nonprofit unincorporated association required to file an annual information return with the IRS?	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)	Yes, form 990 or 990EZ, if gross annual receipts exceed \$25,000. Form 990-N if gross annual receipts are less than \$25,000. (See IRS Publication 557 for details on three year rolling average.)
What gross “receipts” would my bridge unit or district typically have?	[ACBL units and districts ordinarily do not meet the requirements for 501c3 organizations]	Includes but is not limited to gross entry fees at all tournaments, gross entry fees at unit games and special events, gross entry fees from NAP and GNT events, membership dues returned from the ACBL, interest and dividends, donations.	Includes but is not limited to gross entry fees at all tournaments, gross entry fees at unit games and special events, gross entry fees from NAP and GNT events, membership dues returned from the ACBL, interest and dividends, donations.
Is there a monetary penalty for failing to file a required information form with the IRS?	Yes, a tax-exempt organization that fails to file a required return is subject to a penalty of \$20 a day for each day the failure continues. The same penalty will apply if the organization fails to give correct and complete information or required information on its return. The maximum penalty for any one return is the lesser of \$10,000 or 5 percent of the organization's gross receipts for the year.	Yes, a tax-exempt organization that fails to file a required return is subject to a penalty of \$20 a day for each day the failure continues. The same penalty will apply if the organization fails to give correct and complete information or required information on its return. The maximum penalty for any one return is the lesser of \$10,000 or 5 percent of the organization's gross receipts for the year.	Yes, a tax-exempt organization that fails to file a required return is subject to a penalty of \$20 a day for each day the failure continues. The same penalty will apply if the organization fails to give correct and complete information or required information on its return. The maximum penalty for any one return is the lesser of \$10,000 or 5 percent of the organization's gross receipts for the year.
Is there an additional penalty for failure to file required information forms with the IRS?	Yes. The Pension Protection Act requires the IRS to automatically revoke the tax-exempt status of any organization that fails to meet their annual filing requirement for three consecutive years.	Yes. The Pension Protection Act requires the IRS to automatically revoke the tax-exempt status of any organization that fails to meet their annual filing requirement for three consecutive years.	Yes. The Pension Protection Act requires the IRS to automatically revoke the tax-exempt status of any organization that fails to meet their annual filing requirement for three consecutive years.
Is investment income	No (except private	No	Yes

considered by the IRS to be “unrelated business taxable income”	foundations may be subject to certain excise taxes)		
Is the organization subject to IRS Section 4958 “excess benefits” regulations?	Yes	Yes	No
Is the organization subject to IRS Section 4958 regulations that impose “intermediate sanctions”?	Yes	Yes	No
Are donations tax-deductible by the donor as charitable contributions?	Yes	No	No
Are dues or member fees tax-deductible by the individual member?	Yes, but only to extent fees exceed benefits received.	No	No
May the organization engage in lobbying?	Yes, but only an insubstantial portion of activities may be lobbying.	Yes	Yes
May the organization engage in political election campaign activity?	No	Yes, but taxed on expenditures	Yes, but taxed on expenditures
Is the organization subject to UBIT?	Yes	Yes	Yes
Will the organization qualify for nonprofit postal permit?	Yes	No	No
Is the organization required to have an independent board of directors?	Yes	Yes	Yes
Are volunteers of the organization subject to legal liability?	Yes, but trend is to exempt volunteers of charities in certain circumstances	Yes	Yes
Are volunteers of the organization covered by the federal Volunteer Protection Act?	Yes, if volunteers and the facts and circumstances meet certain criteria. (VPA may be preempted by state law.)	Yes, if volunteers and the facts and circumstances meet certain criteria. (VPA may be preempted by state law.)	Possibly, but case law is very limited. (VPA may be preempted by state law.)
May the organization have certain employee benefit plans:			
401(k)?	Yes	Yes	Yes

403(b)?	Yes	No	No
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Last updated January 4, 2009