

Churches and the IRS

Compiled by Mike Jentes June 2006

"Churches" Defined

The term *church* is found, but not specifically defined, in the Internal Revenue Code. With the exception of the special rules for church audits, the use of the term *church* also includes conventions and associations of churches as well as [integrated auxiliaries](#) of a church.

Certain characteristics are generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include:

- Distinct legal existence
- Recognized creed and form of worship
- Definite and distinct ecclesiastical government
- Formal code of doctrine and discipline
- Distinct religious history
- Membership not associated with any other church or denomination
- Organization of ordained ministers
- Ordained ministers selected after completing prescribed courses of study
- Literature of its own
- Established places of worship
- Regular congregations
- Regular religious services
- Sunday schools for the religious instruction of the young
- Schools for the preparation of its members

The IRS generally uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes.

Source: [Publication 1828, Tax Guide for Churches and Religious Organizations](#)

501(c)(3) Status

All of the text (except for items in parentheses) in the section below is taken directly from IRS Publication 577 <http://www.irs.gov/publications/p577/ch03.html#d0e2950>

Organizations Not Required To File Form 1023 (Form 1023 is the application for recognized 501(c)3) status from the IRS.)

Some organizations are not required to file Form 1023.

These include:

- Churches, interchurch organizations of local units of a church, conventions or associations of churches, or integrated auxiliaries of a church, such as a men's or women's organization, religious school, mission society, or youth group.
- Any organization (other than a private foundation) normally having annual gross receipts of not more than \$5,000 (see *Gross receipts test*, later).

These organizations are exempt automatically if they meet the requirements of section 501(c)(3). (see below for help in “meeting the requirements”)

Religious Organizations

To determine whether an organization meets the religious purposes test of section 501(c)(3), the IRS maintains two basic guidelines.

1. That the particular religious beliefs of the organization are truly and sincerely held.
2. That the practices and rituals associated with the organization's religious belief or creed are not illegal or contrary to clearly defined public policy.

Therefore, your group (or organization) may not qualify for treatment as an exempt religious organization for tax purposes if its actions, as contrasted with its beliefs, are contrary to well established and clearly defined public policy. If there is a clear showing that the beliefs (or doctrines) are sincerely held by those professing them, the IRS will not question the religious nature of those beliefs.

Churches. Although a church, its integrated auxiliaries, or a convention or association of churches is not required to file Form 1023 to be exempt from federal income tax or to receive tax deductible contributions, the organization may find it advantageous to obtain recognition of exemption. In this event, you should submit information showing that your organization is a church, synagogue, association or convention of churches, religious order, or religious organization that is an integral part of a church, and that it is engaged in carrying out the function of a church.

In determining whether an admittedly religious organization is also a church, the IRS does not accept any and every assertion that the organization is a church. Because beliefs and practices vary so widely, there is no single definition of the word church for tax purposes. The IRS considers the facts and circumstances of each organization applying for church status.

Contributions

Contributions to domestic organizations described in this chapter, except organizations testing for public safety, are deductible as charitable contributions on the donor's federal income tax return.

Key points for” meeting the requirements of 501(c)(3)”

The IRS wants to see that the organizing documents of a church have “501(c)(3) language.” These points were emphasized in discussions with several IRS representatives.

1) *Your church is exclusively for Religious/Charitable Purposes* To determine whether an organization meets the religious purposes test of section 501(c)(3), the IRS maintains two basic guidelines.

1. That the particular religious beliefs of the organization are truly and sincerely held.
2. That the practices and rituals associated with the organization's religious belief or creed are not illegal or contrary to clearly defined public policy.

Sample statement for Organizing Documents:

_____ is organized exclusively for charitable, religious, educational, and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code.*

2) *If/when there is a dissolution of the church/association, the assets will be distributed to other 501(c)(3) organizations.*

Sample statement for Organizing Documents

Upon the dissolution of the _____, assets shall be distributed for one or more exempt purposes within the meaning of section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code, or shall be distributed to the federal government, or to a state or local government, for a public purpose. Any such assets not so disposed of shall be disposed of by a Court of Competent Jurisdiction of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organization or organizations, as said Court shall determine, which are organized and operated exclusively for such purposes.*

(*Samples are from the IRS site: <http://www.irs.gov/charities/charitable/article/0,,id=123028,00.html>)

Another Helpful Item for the IRS in Naming your Church

In addition, when setting up your church in your organizing documents (getting an EIN number, incorporating with the State, etc.), it is helpful for the IRS to designate you as a church if you have the word “church” in your name. If you don’t do that, the IRS has a tough time counting your organization as a church.

For example, we struggled with that because our official name is “thequest” not “thequest church.” With the word “church” in our name, we would have had an easy time with the IRS. Their policy would bump us right into the “church” category, but without it we have to demonstrate to the IRS that we are a church.

Important Publications by the IRS for Churches

Tax Guide for Churches and Religious Organizations: Benefits and Responsibilities Under the Federal Tax Law

Publication 1828 <http://www.irs.gov/pub/irs-pdf/p1828.pdf>

This publication is a quick reference guide of federal tax law and procedures for churches and religious organizations to help them voluntarily comply with tax rules.

Applying for 501(c)(3) Tax-Exempt Status

Publication 4220 <http://www.irs.gov/pub/irs-pdf/p4220.pdf>

This publication presents general guidelines for organizations that seek tax-exempt status from federal income tax under section 501(c)(3) of the Internal Revenue Code. Although a church is not required to apply for 501(c)(3) to be exempt from federal income tax or to receive tax deductible contributions, the church may find it advantageous to obtain recognition of exemption.

Another important document with more specifics is ***Publication 557: Tax-Exempt Status for Your Organization***

<http://www.irs.gov/pub/irs-pdf/p557.pdf>

Compliance Guide for 501(c)(3) Tax-Exempt Status

IRS Publication 4221 <http://www.irs.gov/pub/irs-pdf/p4221.pdf>

This publication presents general compliance guidelines for recordkeeping, reporting, and disclosure requirements that apply to organizations that have tax-exempt status from federal income tax under section 501(c)(3) of the Internal Revenue Code.

Charitable Contributions—Substantiation and Disclosure Requirements

IRS Publication 1771 <http://www.irs.gov/pub/irs-pdf/p1771.pdf>

This publication explains the federal tax law for organizations such as charities and churches that receive tax-deductible charitable contributions and for taxpayers who make contributions.

Social Security and Other Information for the Members of the Clergy and Religious Workers

Publication 517 <http://www.irs.gov/pub/irs-pdf/p517.pdf>

Unrelated Business Income Tax

Even though an organization is tax exempt, it still may be liable for tax on its unrelated business income. Unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity.

More details found at <http://www.irs.gov/charities/article/0,,id=96104,00.html>

IRS website

www.irs.gov

If you are setting up your church, there is a really helpful page on the IRS website about the “Life Cycle of a Public Charity.” It goes through a step-by-step order of what to do with links to the specific instructions. You can find it at the following link: <http://www.irs.gov/charities/charitable/article/0,,id=122670,00.html>
