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Private Letter Rulings & Determination Letter for 501c3



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A Private letter ruling is “[a] written statement issued to the taxpayer by the Internal Revenue Service in which interpretations of the tax law are made and applied to a specific set of facts. [The] [f]unction of the letter ruling, usually sought by the taxpayer in advance of a contemplated transaction, is to advise the taxpayer regarding the tax treatment he can expect from the I.R.S. in the circumstances specified by the ruling.” *Black’s Law Dictionary*, p. 1196 (6th ed. 1990)(West Publishing Company)(citing *U.S. v. Wahlin*, D.C.Wis., 384 F.Supp. 43, 47.) “... [U]nless the Secretary establishes otherwise by regulations, a “written determination” may not be used or cited as precedent by another taxpayer. Sec. 6110(j)(3); sec. 301.6110-7(b), *Proced. & Admin. Regs.* Written determinations include both private rulings and technical advice memoranda Sec. 301.6110-2(a), *Proced. & Admin. Regs.*” *Lucky Stores, Inc. v. Commissioner*, T.C. Memo. 1997-70 (1997)



Exempt Organizations Rulings and Determinations Letters

A ruling or determination letter will be issued to your organization if its application and supporting documents establish that it meets the particular requirements of the section under which it is claiming exemption. However, the IRS will not ordinarily issue rulings or determination letters recognizing exemption if an issue involving the organization's exempt status is pending in litigation or is under consideration within the IRS.

Rulings in Advance of Operations: A ruling or determination letter may be issued in advance of operations if your organization can describe its proposed operations in enough detail to permit a conclusion that it will clearly meet the particular requirements of the section under which it is claiming exemption. A restatement of the organization's purpose or a statement that it will be operated in furtherance of that purpose will not satisfy this requirement. The organization must describe fully the activities in which it expects to engage. This includes standards, procedures, or other means adopted or planned by the organization for carrying out its activities, expected sources of funds, and the nature of its contemplated expenses.

When an organization does not supply the information mentioned above, or fails to furnish a sufficiently detailed description of its proposed activities to permit a conclusion that it will clearly be exempt, a record of actual operations may be required before a ruling or determination letter is issued.

Adverse Determination: If an organization is unable to describe fully its purposes and activities, resulting in a refusal by the IRS to issue a ruling or determination letter, that refusal is considered an adverse determination, which the organization can appeal.

Public Disclosure: An exemption determination letter is subject to public disclosure.

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What Is a 501(c)(3) Determination Letter?

by Tom Streissguth, studioD

A tax-exempt 501(c)(3) operates in the public interest

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- How Often Must You Renew a 501(c)(3)?
- 501(c)(3) Types

The Internal Revenue Service sets down the tax rules for nonprofit corporations, including the charitable organizations formed under state law and in accordance with Section 501(c)(3) of the federal tax code. A 501(c)(3) should operate in the public interest or for charitable purposes and not for the profit of any individual or group. If the 501(c)(3) conforms with these requirements, it is tax-exempt. The IRS is the final arbiter on tax status, using determination letters to hand down its decisions.

Tax-Exempt Status

A 501(c)(3) group applies for tax exempt status with IRS Form 1023, Application for Recognition of Exemption. The exemption allows it to operate more efficiently when serving the public interest and devote more of its funds to whatever purpose it serves. Any donations or grants the group collects in order to operate, or any income it earns from its activities, do not incur tax. The IRS does, however, require these groups to file annual returns known as the 990 series, which report gross receipts, expenses and assets. The IRS requires different versions of the 990 depending on these amounts; groups with less than \$50,000 in gross receipts may file electronically.

Donations

A tax-exempt 501(c)(3) also allows individuals who donate to the group to deduct those donations from their taxable income. The IRS allows individuals to deduct donations or legacies to the organization for estate and gift tax purposes. This is a vital feature of the tax code that encourages charitable donations, which for many individuals means reducing the tax rate they pay on their income.

Application Process

To apply for 501(c)(3) tax-exempt status, an organization must go through a step-by-step process outlined by the IRS. It must declare the type of organization it is; trusts, corporations and associations qualify. It must have a specific and exempt purpose, which may include a charitable, religious, educational or scientific purpose; foster amateur sports; or be organized for the prevention of cruelty to children or animals. It must submit its organizing documents, the completed Form 1023 and a user fee.

Determination Letter

Upon receipt, the IRS assigns an examiner, from the Exempt Organizations Rulings and Agreements Office for EO Determinations, to the application. The examiner ensures all required forms and reports are complete, and then issues a determination letter to the organization. The letter gives the contact name and number of the organization, date of the determination and its basic reporting responsibilities.

Care and Handling

The IRS determination letter is a vital document that every 501(c)(3) organization must keep safe. State laws vary, but in order to keep nonprofit status current, the group may be required to file a copy of the determination letter with the state agency that registers nonprofits. Grant applications and other formal funding programs usually require a copy of the determination letter, which should also be available to individuals or groups requesting information on the group's legal and tax status.

References & Resources

- IRS.gov: Publication 557: Tax-Exempt Status for Your Organization
- IRS.gov: Form 1023, Application for Recognition of Exemption
- IRS.gov: Rulings and Agreements: Exempt Organizations Determination Letter Program
- IRS.gov: Form 990: Return of Organization Exempt From Income Tax
- Brain Aneurysm Foundation: IRS Determination Letter

<http://info.legalzoom.com/501c3-determination-letter-23947.html>