

## **Tax Guide for Churches and Religious Organizations Summary**

The term church is found, but not specifically defined, in the Internal Revenue Code (IRC). The term is not used by all faiths; however, in an attempt to make this publication easy to read, we use it in its generic sense as a place of worship including, for example, mosques and synagogues. With the exception of the special rules for church audits, the use of the term church throughout this publication also includes conventions and associations of churches as well as integrated auxiliaries of a church.

### **Tax-Exempt Status**

Churches and religious organizations, like many other charitable organizations, qualify for exemption from federal income tax under IRC section 501(c)(3) and are generally eligible to receive tax-deductible contributions. To qualify for tax-exempt status, such an organization must meet the following requirements (covered in greater detail throughout this publication):

- the organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes,
- net earnings may not inure to the benefit of any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the organization may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

### **Recognition of Tax-Exempt Status**

#### **Automatic Exemption for Churches**

Churches that meet the requirements of IRC section 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition tax-exempt status from the IRS. Although there is no requirement to do so, many churches seek recognition of Tax-exempt status from IRS because such recognition assures church leaders, members and contributors that the church is recognized as exempt and qualifies for related tax benefits.

### **Q. Why are some churches that have filed for 501(c)(3) status with IRS Form 1023 now listed in IRS publication 78?**

**A.** While there is no governmental requirement for churches to file with the IRS to obtain 501(c)(3) status, some churches have elected to do so to meet the requirements for participation in various secular activities or programs that require the church to be listed in IRS Publication 78, the listing of all non-profit organizations that have directly filed with the IRS and been officially given tax-exempt status through the filing process. (Remember, churches are exempt from having to file.) Churches wishing to participate in food bank programs, corporate matching donations, foundation grants, etc., are examples of those that elect to file IRS Form 1023 to become eligible for participation in these secular programs.

**Q. Is a Federal Employer Identification Number (FEIN) necessary for a church?**

**A.** Yes. A FEIN (sometimes erroneously referred to as a Federal Tax Number) absolutely is required. IRS Publication 1828 (Rev.7-2002) states every tax-exempt organization, including a church, is required to have a FEIN whether or not it has any employees. It is to be given to the bank when opening church bank accounts and must be used on any employer, employee or self-employed person's tax forms (*e.g.*, W-2, 1099 Misc, 941 Quarterly Employment Tax Return, 990-T) that must be filed with the IRS to account for pay and any tax withholdings. Churches can obtain a FEIN by submitting an IRS Form SS-4 to the IRS. The FEIN number assigned will be a nine-digit number in the following format: 00-1234567

**Q. Does a church have to file an annual income tax return with the IRS?**

**A.** No. Exempt churches, their integrated auxiliaries and conventions or associations of churches are not required to file federal income tax returns on church income, or, for that matter, the usual information return filed by tax-exempt entities (Form 990, Return of Organization Exempt From Income Tax). However, the church may have to file Form 990-T, Exempt Organization Business Income Tax Return, if it is generating gross income from an unrelated business of \$1,000 or more. Don't confuse income tax returns with the "employment" tax return(s) that may be required for your church if you have employees

**Q. Is a church subject to tax on any income from an activity that is unrelated to its exempt purposes?**

**A.** Yes. Churches, like other tax-exempt organizations, may engage in income-producing activities unrelated to their tax-exempt purposes. However, the net income from such activities may be subject to unrelated business income tax (UBIT). If a church or other exempt organization has gross receipts of \$1,000 or more from the conduct of any unrelated trade or business, it may be required to file IRS Form 990-T, Exempt Organization Business Income Tax Return. The Form 990-T is due the 15th day of the fifth month following the end of the church's tax year. [See IRS website for an additional explanation.](#)

Income from an activity will be subject to UBIT if the following three conditions are met:

1. The activity constitutes a trade or business.
2. The trade or business is regularly carried on.
3. The trade or business is not substantially related to the organization's exempt purpose

**Q. What does the IRS look for to determine whether or not an organization is "tax-exempt"?**

**A.** To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.