

WHAT CURRENTLY INTERESTS THE IRS REGARDING 501(C)(3) ORGANIZATIONS?

(Part one of a two-part article)

The Internal Revenue Service is increasing its review of tax exempt 501(c)(3) organizations in the following areas:

1. **Private Inurement**, which proscribes unreasonable transactions with “insiders” (defined as directors and officers who have a vote or conduct the general business of the organization.) Remember no asset of a 501(c)(3) corporation can inure to the benefit of any director, officer or employee of the corporation except as reasonable salary and benefits. The assets of 501(c)(3) corporations must be used to achieve the mission of the corporation and for no other purpose.

2. **Private Benefit**, which proscribes unreasonable transactions with any person or entity. Again, all reasonable transactions of a church will be those made in the achievement of the corporations stated religious purposes.

3. **Excess benefit transactions** are prohibited. The IRS has categorized the following

as AUTOMATIC excess benefit transactions: provision of residences, vehicles, corporate charge cards on which personal charges are made, even if those charges are later repaid, cell phones with any personal use, personal use of computers, spousal travel and low interest or no interest loans.

4. **Political Campaign Activity**. Public charities are not allowed to participate in political campaign activities at all, ever, to any degree. The IRS investigated 110 cases of alleged political campaign violations in 2005. They issued 55 written advisories and revoked three tax exemptions in those cases. At least 30 cases still remain open and many more will follow. (In their private capacity, ministers are not prohibited from participating in political campaigns. Churches may register voters and influence legislation, but they may not use a substantial part of their assets in so doing.)

Be careful how you utilize God’s money and His pulpit. Always remember your mission.

CHURCH LAW