

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

(Part 2*)

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

5. Proper reporting and valuation of non-cash items. Reporting for cars donated to a charity was reformed in 2004. Filing a 1098-C form is required. Failing to follow the IRS rules can result in penalties to the charity of up to 35% of the claimed value by the tax filer.

The IRS's next target is donations of clothing, furniture, paintings, antiques, objects of art, jewelry and gems. It has proposed a very complicated record keeping system to account for the deductible value of these items. This system will probably be effective for all donations beginning in 2007. The IRS believes people are donating old, useless articles for which the recipient charity has no use and the people are still getting a charitable contribution. Expect such valuation and reporting issues to be IRS concerns

for some time to come.

6. Unrelated Business Income (UBIT). The issue is unfair competition. When a 501(c)(3) corporation runs a business that competes for clients or customers with a for-profit corporation, the 501(c)(3) can expand, advertise and cover the general administrative costs of its operation with profits that have not been taxed. A for-profit corporation has no such benefit. The IRS is determined to create parity between for-profit and not-for-profit corporations. Expect the IRS to ratchet up its auditing in this area.

7. Charitable contributions for payment of tuition at a religious school. This practice is absolutely forbidden. Several recent cases have upheld this prohibition. If your church also has a school of any kind, please do not allow charitable contributions for payment of tuition.

*To review Part 1, go to www.openbible.org, Publications & Resources, *Jeff's Journal*, Archives, April/May 2006 issue.

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