

It is important to understand that tax-exempt status and exemption from paying sales tax are two entirely different issues.

Tax-exempt status means that donors who contribute to your organization are eligible for a tax exemption if they itemize their income tax return.

Even if an organization has obtained tax-exempt status from the IRS, it does NOT exempt the group from paying state or local sales tax on items such as plant materials, supplies, or other services that are purchased for various projects. This is a common misconception!

Should Your Local Group or Committee Become a 501(c)3 Tax-Exempt Organization?

A few volunteer groups that work with Trees Forever in larger communities have 501(c)3 status; however, most tree groups work with a local 501(c)3 organization or local city government willing to provide them status and accounting for their funds. Before you pursue tax-exempt status for your group or committee, we recommend you evaluate the long-term time and expense commitment as well as the reporting and accounting requirements to both apply for and maintain 501(c)3 status. Review your options prior to moving forward.

Tax-exempt status is given by the IRS to organizations that fit within their 501(c)3 guidelines. In order to file an application, you must first be incorporated as a non-profit corporation and have complete Articles of Incorporation and Bylaws. There is an annual fee, based on your annual receipts. You will be required to file Form-990 reports annually to satisfy the IRS that your organization continues to fit within the guidelines. Many states, including Iowa and Illinois, also have other specific reporting requirements.

If your group or committee does decide to pursue tax-exempt status, we recommend that you consult with a local legal or accounting firm for assistance.



Alternatives to Applying for Tax-Exempt Status

- Consider asking your city government to manage your local program dollars within a restricted city account (not as part of the general fund). This will also allow you to avoid paying sales tax on trees or other items related to your program, as government entities are exempt from paying sales taxes. Managing the finances for local projects through city coffers has worked well in a number of communities.
- Ask another existing nonprofit with tax-exempt status – such as a local Main Street program or the Chamber of Commerce – to manage your funds. They would serve as your fiscal agent. Often, these groups are already involved with your local tree-planting efforts and would be happy to assist your group or committee in this way.

Tax-Exempt Status Issues At a Glance

Nonprofit Status

This is a state law concept where an organization files articles of incorporation with the state government and is formally recognized as a nonprofit corporation. Organizing as a nonprofit at the state level does not automatically qualify your organization as exempt from federal income taxes or state sales tax. An organization can file for non-profit status and collect donations, but donations will not be tax deductible for the donor. The organization is also required to pay sales tax.

Tax-exempt – 501(c)3

This is a formal recognition from the federal government that allows donations made to the organization to be tax deductible. To be exempt from state and local taxes, additional forms and paperwork are required. The following is a list of benefits and drawbacks of applying for tax exemption.

Benefits	Drawbacks
Donations made to the organization are tax deductible for the donor.	Significant paperwork is needed for filing and maintaining tax-exempt status.
The organization, in most cases, is exempt from paying federal income taxes on revenue.	A fee of several hundreds of dollars is required when filing.
The organization has greater eligibility for certain grants from foundations, corporations, or government agencies.	Annual filing updates are required by the federal government and biennially by state government.

Steps Towards Applying for Non-profit Status and Federal Tax Exemption

1. Formally establish your organization with a board of directors or committee officers. This will also include by-laws, conflict of interest policy, etc. Consider consulting a legal or accounting firm for assistance.
2. File Articles of Incorporation with the state (this serves as legal recognition for your organization) and pay the filing fee.
3. Apply for federal tax exemptions as a 501(c)3 organization.
 - a. Apply for an Employer Identification Number (EIN) from the IRS.
 - b. Obtain and complete an Application for Recognition of Exemption Under Section 501(c)3 of the Internal Revenue Code and pay filing fee.

Helpful Information and Websites

For more information about the IRS and 501(c)3 tax-exempt status, you can visit www.irs.gov/charities

Find more information and services including grants, loans, assistance, taxes, management, and more at www.usa.gov/Business/Nonprofit.shtml

For information specific to Iowa, download the *Iowa Principles and Practices for Charitable Nonprofit Excellence* publication from the Iowa Nonprofit Resource Center at inrc.law.uiowa.edu

For assistance in Illinois, visit the Central Illinois Nonprofit Resource Center website at library.uis.edu/cinrc/index.html

Join Trees Forever on its mission to plant and care for trees and the environment by empowering people, building community and promoting stewardship.

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