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## *IRS Releases Simplified Application Form for Exempt Organizations*

On July 1 the Internal Revenue Service released a short-form tax exemption application, called 1023-EZ, designed to ease the process for small charities to apply for IRS recognition of their 501(c)(3) tax-exempt status.

The new Form 1023-EZ is 3 pages long, compared with the standard Form 1023 that is 26 pages with multiple schedules and attachments. Most organizations with projected gross receipts of \$50,000 or less and assets of \$250,000 or less will be eligible to use the short form. This could save eligible organizations thousands of dollars in legal fees and months of time. The IRS estimates that as many as 70% of charities could use the shorter form, and believes this may also help speed processing of larger exempt organization filings as IRS staff and resources won't be tied up on lengthy reviews of smaller organizations.

This is the first time the IRS has offered a streamlined application process for smaller charities. In the past, all organizations seeking IRS recognition of tax exempt status had to go through the same lengthy application process regardless of size, and over the years additional questions made the Form 1023 longer and more complex. This often resulted in processing delays, frustrating the organizations and sometimes hampering fundraising plans. The current IRS backlog is such that exemption applications can take 9 months or more.

There are some changes from the draft form released by the IRS earlier this year, notably that the \$50,000 gross receipts limit was revised downward from an earlier proposal of \$200,000. A few items of note in the 1023-EZ process:

- In addition to the dollar caps, some types of organizations are not eligible to use Form 1023-EZ at all. These include schools, churches, hospitals, foreign organizations, successors to for-profits, organizations that previously had and lost tax-exemption, and a few other categories. These organizations must continue to use the standard long-form Form 1023.
- The form must be filed online. There is a 15 question "eligibility checklist" that organizations must complete before filing. The checklist is not filed with the form, but the IRS advises that the checklist should be kept in the organization's files. That's because the person signing the form must attest that the organization is eligible to use the EZ form, and the checklist is the backup for making that statement.
- Unlike the standard Form 1023, small organizations using the EZ form are no longer required to submit a budget or copies of their organizational documents with the form.
- The Form 1023-EZ can also be used to reinstate the exemption of a small organization that lost its exemption because it failed to file its required annual returns.
- A \$400 filing fee is required, which is equal to the lower filing fee that previously applied to very small organizations—under \$10,000 in annual revenue. With the arrival of Form 1023-EZ, more organizations (with annual revenues up to \$50,000) now qualify for the lower filing fee. Larger organizations filing the standard Form 1023 pay \$850.

There are still about 2 pages of questions on the Form 1023-EZ, and a number of technical requirements regarding provisions that the organization must have in its governing documents. The IRS has not relaxed the annual filing requirements and most organizations (including those that qualify for using Form 1023-EZ) must continue to file some version of the Form 990 annual information return. In some states, tax exempt organizations are subject to additional filing requirements. For these reasons, consulting with counsel or a tax preparer experienced in tax-exempt organizations is still advisable. But overall, the new form should simplify the process greatly for small charities starting up and seeking tax exemption.

For more information about the new IRS Form 1023-EZ, or any other issue affecting tax exempt organizations, please contact your regular Butzel Long attorney, a member of the Butzel Long Nonprofit Organizations practice group, or the authors of this alert.

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