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David N. Plaskow • Feb. 20, 2016

Non-Profit Organizations

We tend to think of nonprofits – the places where we worship, adopt our pets, receive our cultural stimulation, and so on—as completely tax exempt organizations. But many of these groups do face sales tax issues, both when they purchase items and when they sell goods and services.

Determining Status

Whether nonprofits, which are classified under a 501(c) status from the IRS, have to

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Many states require nonprofit organizations to apply for sales tax exemptions. The states provide application forms and instructions for submitting documentation. Many states provide tax-exempt nonprofit organizations with actual exemption certificates, a copy of which the organizations then provide to retailers at the point of sale to document the transaction. Taxpayer identification numbers (TINs) are used on the exemption certificates to identify the organizations. Some states provide resources for retailers to verify sales tax exemptions online.

To obtain an exemption certificate application form, start by visiting the website of your state's division of taxation or charity registration bureau. While this may sound self-evident, make sure you complete all applicable sections on the application. In smaller nonprofits, the application form would probably be completed by the organization's executive director; for larger nonprofits, the chief financial officer will most likely complete the paperwork.

While the application will ask you to answer general questions on organization name, location and so forth, it may ask you to include the following support documents:

- IRS determination letter stating that the organization is exempt from income tax under 501(c)(3).
- Certificate/articles of incorporation, constitution, charter or trust agreement.
- Bylaws.
- Recent copy of a Certificate of Good Standing from the state where the organization is incorporated, if applicable.
- Recent copy of filing with Charities Registration, if applicable.

Depending on the state, there may or may not be a cost to file for an exemption. There are no specific deadlines to file the form, but, depending on upcoming organizational purchases, it behooves you to submit as soon as possible as the

potential cost savings may be considerable. After mailing the completed form and

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substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption.

An exempt organization that has \$1,000 or more of gross income from an unrelated business must file [Form 990-T](#). An organization must pay [estimated tax](#) if it expects its tax for the year to be \$500 or more. For additional information, search "Tax Information for Charitable Organizations" on www.irs.gov.

"A word of caution: Nonprofit organizations are not exempt from being audited by the IRS or a state taxing authority," says Neil B. Becourtney, CPA, Tax Partner at CohnReznick LLP. "So, just like a for-profit business, nonprofits need to maintain sufficient, accurate records documenting their activities."

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