

501(c)(3) and Tax-exempt Status FAQs

What is a 501(c)(3) organization?

A 501(c)(3) is a charitable organization as designated by the [Internal Revenue Service](#). This type of status means your neighborhood association does not have to pay federal taxes on income, donations of money, or in-kind items to your association. Donors may take a tax deduction for their donation.

Is that the same as tax-exempt?

Not exactly. When neighborhood associations and other groups refer to their tax-exempt status, they are referring to being exempt from paying state sales tax. Generally your organization must attain 501(c)(3) status from the IRS before applying to the Wisconsin Department of Revenue for a Certificate of Exempt Status (CES).

If you are unsure whether your organization qualifies for the exemption under Wisconsin statute and you would like the department to make a determination, please submit a request for a private letter ruling. [See Publication 111: How to Get a Private Letter Ruling from the Wisconsin Department of Revenue](#) for instructions. (You may need to use Firefox, Chrome or Microsoft Edge rather than Safari to open this publication.)

A good reason to seek tax-exempt status is if you make a lot of purchases and can save money by not paying the sales tax. ***Please note that if most of your purchases are food items for social gatherings, you are not paying sales tax anyway, and getting a CES may not be worth the cost.***

Why would our neighborhood association need to be a 501(c)(3)?

If you are interested in receiving donations from residents or local businesses, 501(c)(3) status may make your association a more attractive organization to your potential donors.

How much does it cost to get 501(c)(3) status?

If your gross annual receipts (membership dues, donations, etc.) are under \$10,000:
\$400

If your gross annual receipts (membership dues, donations, etc.) are over \$10,000:
\$850

How do you apply for 501(c)(3) status?

You must [complete IRS form 1023](#) and have these supporting documents:

- Bylaws or Articles of Incorporation
- Five years of financial information (If you have been organized for fewer than five years, you can supply as many years as applicable.)
- Policies and Procedures
- Supplemental information as required on the application

A Policies and Procedures document is not absolutely necessary, but it shows the IRS that you are a well-run organization. Policies and Procedures help define your organization's day-to-day operations without impacting the bylaws, which shouldn't change materially over the life of your organization.

If your gross receipts are less than \$5,000, you may be able to use form 1023EZ, which is streamlined and interactive.

How long does it take for the application to be processed?

The IRS estimates the time for processing from mailing to approval to be two to 12 months.

Is there anything I have to do to maintain my 501(c)(3) status?

Yes! Each year, you must go to the IRS website and file a Form 990-N e-postcard that verifies that you are still a nonprofit organization. Form 990-N is due every year by the 15th day of the 5th month after the close of your tax year. You cannot file the e-postcard until after your tax year ends.

How do I apply for exemption from state sales tax?

A Certificate of Exempt Status (CES) number can be obtained by submitting a completed [Application for Wisconsin Sales and Use Tax Certificate of Exempt Status Form S-103](#) and the following documentation:

- Articles of Incorporation or Bylaws
- Statement of receipts (income) and disbursements (expenses) for the organization's last accounting period
- Federal Internal Revenue Service (IRS) determination letter

Where are my articles of incorporation?

If no one in your organization has a copy of your articles of incorporation, you can go on the [Wisconsin Department of Financial Institutions website](#) and request a copy of them. If no one has paid the \$10 annual fee to confirm that you are still a corporation, you can pay the fee and be reinstated.



If your organization never had articles of incorporation, you can create them by answering a series of questions on the Wisconsin Department of Financial Institutions website for \$35. The application can be expedited for an additional \$25, which reduces the processing time to about two days.

Please note that there will be specific questions about a dissolution clause; in other words, you need to determine what happens to the money in your treasury if your organization ceases operation. Some neighborhood associations have chosen to have their assets transfer to the Neighborhood Association Council.

The process of applying for 501(c)3 and tax-exempt status sounds daunting, but there are neighborhood associations that have completed the process successfully. If you have additional questions, please feel free to contact the NAC treasurer at treasurer@WauwatosaNAC.org.