

Church's Exempt Status Revoked

A church registered as a domestic nonprofit corporation, had its exempt status revoked under Code Sec. 501(c)(3). The IRS determined that the church was operating for the benefit of its members and a part of its net earnings inured to their personal benefit. Hence, the organization failed to establish that it operated exclusively for an exempt purpose. Further, the organization failed to qualify as a church within the meaning of Code Secs. 509 (a)(1) and 170(b)(1)(A)(i).

Source: IRS Letter Ruling 201921014

This case illustrates the importance of ensuring that your church only conducts activities that are within the scope of its stated mission and exempt purposes and that any and all payments to staff, volunteers, members, and others are always carefully documented and reported, as required. Unrelated activities can generate taxes and require the church to file a tax return and pay taxes on any net earnings from the activity. Diverting church funds to pay salaries or otherwise personally benefit individuals almost always require the Church to file annual payroll tax returns. Excessive compensation and payments can be especially problematic in that they can lead to financial penalties, sanctions and, the ultimate penalty, loss of tax-exempt status as in the case noted above.

If you have questions or concerns about activities occurring at your church or ministry that you think may be problematic, we recommend you engage the services of a competent, local CPA experienced in working with religious nonprofits. If you need a reference for a CPA in your area please contact our office for assistance.

DISCLAIMER

This material is presented with the understanding that the author is providing basic information only and assumes no liability whatsoever in connection with its use. Tax laws are constantly changing, are subject to differing interpretations, and the facts and circumstances in any particular situation may not be the same as those presented here. Therefore, we urge you to do additional research and make sure that you are fully informed and knowledgeable before using the information contained herein.

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