



SCORE column: Navigate complex filing processes

I wasn't much help at a recent SCORE counseling session. It was a good thing that Mary Guldán-Lindstrom, owner of FOCUS C.P.A. and a SCORE volunteer, was the other counselor.

Our client was looking for assistance in filing for tax-exempt status and had her 12-page form, not including addendums, with her. Lindstrom was able to take her through the questions one by one and had a solid understanding of the process.

Filing for tax-exempt status is not easy. There are 28 different types of tax-exempt organizations under Internal Revenue Code 501(c), and numerous mini-courses, pamphlets and publications to peruse. Guldán-Lindstrom says the complexity is intentional in order to prevent fraud and unethical behavior.

Further confusing the issue is the fact that businesses or organizations often don't understand the difference between nonprofit and tax-exempt status.

Nonprofit status is actually a state law concept that may make an organization eligible for state sales, property and income tax exemptions. Qualifying as nonprofit at the state level does not grant the organization exemption from federal income tax. To qualify on the state and federal levels requires different applications and acceptances.

Most organizations start on the federal level and file for a 501(c)3.

Guldán-Lindstrom explained, "To qualify for this option, the business must be a religious, educational, charitable, scientific, literary, testing for public safety, to foster national or international amateur sports competition, or prevention of cruelty to children or animals type of organization."

She said the main benefits of being awarded tax-exempt status are the ability to accept tax-deductible charitable donations from individuals and private foundations, and exemption from sales and income taxes.

"Businesses designed to focus all their resources to fulfilling a charitable mission are best suited to be tax-exempt. To qualify, all income needs to be used to fulfill the mission," she added.

As part of the mission, the group must have a board of directors that holds similar beliefs and is in a position to set direction, approve salaries and budgets, and give advice.

In addition, the process will require filing as a corporation, writing by-laws and articles of incorporation, and making certain that everything stated fulfills the mission. Once tax-exempt status is awarded, IRS requirements should be followed to the letter and every decision carefully documented. Board meetings should be held on a regular basis.

Guldan-Lindstrom acknowledges that most organizations will need assistance in the process. In addition to taking advantage of groups like SCORE, she recommends asking an attorney or accountant to be part of your board.

Tina Dettman-Bielefeldt is co-owner of DB Commercial Real Estate in Green Bay and assistant district director for SCORE, Wisconsin.