Not-for-Profit vs. Tax-Exempt Status

What is the difference between not-for-profit and tax-exempt status?
Non-profit is a state law concept. Non-profit status may make an organization eligible for certain benefits, such as state sales, property and income tax exemptions. Although most federal tax-exempt organizations are non-profit organizations, organizing as a non-profit organization at the state level does not automatically grant the organization exemption from federal income tax.

To qualify as tax-exempt from federal income taxes, an organization must meet requirements set forth in the Internal Revenue Code. See Types of Tax-Exempt Organizations or Publication 557 for more information.

How does an organization become tax exempt?
An organization becomes tax-exempt by applying for recognition of exemption from the Internal Revenue Service (IRS). The IRS will recognize an organization as tax-exempt if it meets the requirements of the Internal Revenue Code. See Types of Tax-Exempt Organizations and Publication 557, “Tax-Exempt Status for Your Organization.”

Organizations applying for tax-exempt status must submit two applications: one requesting an employer identification number (EIN) and the other applying for recognition of exemption.

Do I need a tax-exempt number for my organization?
No. Unlike some states that issue numbers to organizations to indicate that these organizations are exempt from state sales taxes, the IRS does not issue numbers specifically for exempt organizations. While the IRS does issue EINs, these are merely a unique identifier, similar to a Social Security number for an individual. Applying for and receiving an EIN says nothing about the organization’s tax status; however, your organization needs an EIN to apply for tax exemption.

How do I get an EIN for my organization?
You can apply for an EIN online, over the telephone, via fax or through the mail. See the instructions of Form SS-4, “Application for Employer I.D. Number,” for further details.

- To get an EIN online, go to the IRS Web site at www.irs.gov/businesses and click Employer ID Numbers.
To get an EIN over the phone, call (800) 829-4933. Hours are 7 a.m. to 10 p.m. local time, Monday through Friday. See EIN Toll-Free Telephone Service for more information.

To request an EIN via fax, 24 hours a day/seven days a week, dial the fax number at the location accepting applications from your state. The instructions on the Form SS-4 indicate which location will accept your faxed request.

To receive an EIN through the mail, complete Form SS-4. The instructions on the form provide the correct address.

Third parties can receive an EIN on a client's behalf by completing the new "Third Party Designee" section and obtaining the client's signature on Form SS-4. This avoids having to file a Form 2848 (power of attorney) or Form 8821 (tax information authorization) to get an EIN for their client.

How do I obtain an application for tax-exempt status?
Most organizations applying for exemption must use specific application forms. Two forms currently prescribed by the IRS are Form 1023, “Application for Recognition of Exemption” (and instructions) for charitable organizations; and Package 1024, “Application for Recognition of Exemption” for other tax-exempt organizations.

The application your organization is required to submit is specified in Publication 557. See Tax-Exempt Organizations Tax Kit for a list of forms and publications of interest to tax-exempt organizations. You may also request these forms by calling (800) 829-3676.

How long does it take to process an application for exemption?
Applications are processed as soon as possible. The process can be delayed, however, for reasons ranging from simple errors on the application to issues concerning the qualification of the organization for exemption. See the Top Ten Reasons for Delay in Processing Applications.

Does my Alumnae Panhellenic have a sales tax exception certificate for my state?
You need to contact your state's department of revenue for information on how your association can apply for a sales tax exception certificate. Remember, the sales tax exception is only for making qualified purchases in your state.

Can my Alumnae Panhellenic use the NPC federal EIN?
No. The NPC accountants have indicated this cannot be done, unless all of your financial activity runs through NPC and is reported on NPC's tax returns. Using the NPC federal EIN does not relieve your association of any tax liability.

For more information, see the IRS Web site: http://www.irs.gov