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# IRS Tax-Exempt Sector Under Fire

NOT-FOR-PROFIT, TAX

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On July 1, 2014, the IRS issued Form 1023-EZ (Streamlined Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code). This exemption application is a 3-page form, compared to the 26-page Form 1023. There are 26 criteria that an organization must meet in order to be eligible to use the EZ form, the most prominent being an organization must not project having annual gross receipts in excess of \$50,000 in any of its first three years and the organization may not have total assets in excess of \$250,000.

## DIFFERENCES BETWEEN THE FORM 1023-EZ AND THE FORM 1023

The Form 1023-EZ does not require an organization to submit a detailed narrative of its program services to support its exempt purpose, to identify conflicts of interest, or provide details regarding the governance of the organization. Critics of the 1023-EZ application, including state enforcement agents, are concerned that the IRS has omitted important questions in the application that are critical to educating nonprofit applicants.

The Director of the IRS's Exempt Organizations Division, Tamera Ripperda, reports that her division "underwent a thorough risk assessment of this form." Through the IRS analysis, they determined that many of the organizations applying for exempt status were smaller organizations that had not started operating at the time of their application. The 1023-EZ application has streamlined the application process, freed-up resources in the tax-exempt sector, as well as allowed the IRS to clean-up the backlog of existing applications for this subset of exempt organizations. The Form 1023 averages 110 days for processing whereas the Form 1023-EZ averages only 16 days. Ripperda stated, "Rather than examining groups upfront on what they plan to do, we're going to examine them on what they're actually doing." Critics view this approach as reactive and not proactive in preventing future wrongdoings.

The IRS has put a lot of faith in organizations playing by the rules and being honest on their application for exemption. However, there are still 33 types of organizations that are ineligible to file the Form 1023-EZ, and must file the Form 1023. With IRS funding dwindling year after year, the IRS must utilize its resources as efficiently as possible. Supporters of the Form 1023-EZ compliment the IRS for eliminating the 74,000 applications in the backlog and feel that the implementation of the simplified form was a courageous and brilliant decision made by the IRS. Critics, however, do believe that shortening the first step in becoming an exempt organization could cause significant compliance issues in the future.

years.

Contact us if you have questions regarding the [Form 1023-EZ](#) or [Form 1023](#) and visit our [not-for-profit services page](#) to see a full listing of our service offerings.

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