

## **Neighborhood Networks Quarterly Consortia Conference Call Changes in Internal Revenue Service 501(c)(3) Code**

On June 5, 2007, Neighborhood Networks held the third of four Quarterly Consortia Conference Calls for the 2007 fiscal year. The call was entitled "Changes in Internal Revenue Service 501(c)(3) Code" focusing on strategies for successfully obtaining non-profit status and the legal obligations of nonprofit organizations. The call also focused on how Neighborhood Networks centers can leverage their 501(c)(3) tax-exempt nonprofit designation for resource and partnership development, and provided the participants with information on the legal requirements of the tax exemption process.

The opening guest speaker, Miles Graham, is the Neighborhood Networks National Consortium Board treasurer, and president of the Community Builders of Arkansas, Inc. (CBA). Graham is experienced in the process of filing for nonprofit status and explained how consortia can utilize this status to partner with businesses and receive funding from foundations. He was instrumental in leading CBA through its incorporation process in 2005. Graham stressed that because of CBA's nonprofit exemption, he was able to develop partnerships and receive funding through grants. Guest speaker Marshall Fuld, senior revenue agent with the Internal Revenue Service (IRS), described the steps consortia must follow in the application process. Finally, Attorney Alison King represented Neighborhood Networks National Partner ProBono.net on the call. King works for New York Lawyers for the Public Interest. She provided insight on the legal requirements and the mandatory clauses that must be included to make the application complete.

### ***Highlights from the Call***

- Neighborhood Networks centers are strongly encouraged to join or form a consortium and become incorporated as a nonprofit organization. Graham discussed centers and consortia leveraging partnership and resource development through use of their nonprofit designation. Neighborhood Networks consortia can become self-sufficient through nonprofit status and increase the resources for their member centers in the following areas:
  - Funding Opportunities – Most grants are awarded to nonprofit organizations. Consortia that are nonprofit organizations have more opportunities to diversify their revenue stream and fulfill the needs of their member centers.
  - In-Kind Contributions – Volunteer groups often contribute their services to nonprofit organizations. The volunteers benefit in two ways:
    - They are gratified by helping a community based organization;
    - They are able to receive tax credits when filing for their tax returns because of their contribution to a nonprofit organization;
  - Partnership Development – Businesses, both local and national in scope, are more inclined to partner with organizations that are nonprofit because they can easily reach communities in need; such partnerships enable businesses to receive tax deductions. Developing partnerships is significant for consortia because it allows them to have access to resources other than funding, such as equipment and/or additional staffing to increase their capacity. The partnerships also benefit the

centers as they allow the centers access to resources that will help them to better serve their residents.

- How do Neighborhood Networks consortia apply for nonprofit designation? Fuld discussed a number of steps consortia must undergo before receiving their nonprofit status. There are several forms that are needed to complete the process. Fuld explained the significance of the following forms:
  - Form 1023 - The primary application is Form 1023, which is used when Neighborhood Networks consortia apply for tax-exempt status under Section 501(c)(3).
  - Form SS4 – This application is used to apply for an employer identification number. In some cases, the employer identification number is required before an organization submits Form 1023.
  - Form 2848 – This application is used by organizations that want a third-party representative, such as an accountant or an attorney, to represent them in conversations with the IRS.
  - Form 990 – This application is used by tax-exempt organizations to report annual returns to the IRS. After a consortium has received the exemption, they are required to submit this form, which may be viewed by the public.
- Fuld described the procedural elements of a completed application. All applications are mailed to the following address:
  - Internal Revenue Service
  - P.O. Box 192
  - Covington, Kentucky 41012-0192

First, the application goes through a screening process, during which an IRS representative ensures that the application is filled out completely, and that all required forms are included. Fuld assured the participants that it is possible to successfully complete the tax-exemption process in one attempt, and, to do so, consortia should make the application as detailed and descriptive as possible. This will reduce the probability of the IRS returning the application for additional information. The following tips will help consortia avoid having their application returned when undergoing the tax-exemption process:

#### Neighborhood Networks Consortia Application Checklist

- Form 1023 must be signed by an authorized member of the consortium, usually a board member.
- Form 1023 must include the applicant's employer identification number.
- Provide complete financial information on the balance sheet and income statement forms.
- Provide a detailed narrative description of all consortium activities: past, present and planned. The narrative is important because it informs the IRS

representative that the consortium is organized and responsible enough to receive tax-exempt benefits.

- o Include a copy of the organizing instrument:
  - Prior to filing for tax exemption, every organization must complete the process of becoming a corporation. This process occurs at the state level. Corporations must provide the Certificate of Incorporation and the Filing Receipt from their Secretary of State (or Secretary of the Commonwealth). The Certificate of Incorporation must contain all required language, such as the dissolution clause. The dissolution clause states how the assets will be distributed should the organization dissolve. Additionally, the purpose of the organization, its political and legislative activities, and/or private benefits must be included in the Certificate of Incorporation.
  - Consortia must provide adopted bylaws.
- o The correct filing fee must accompany the application. The fee ranges from \$300 - \$900.
- o The consortium must demonstrate that it is operating for public interest, rather than private interest.
- o The consortium must indicate its year end, whether it is a calendar year end, or a fiscal year end.
- King explained the legal requirements involved with tax-exempt organizations. Neighborhood Networks consortia need to ensure that they are able to function as a nonprofit entity under their particular state jurisdiction.
- King discussed the formation of a nonprofit for the benefit of the public. Individuals who are directly involved with the organization should not benefit from it, or reap financial and/or political gain. Board members are responsible for making certain that individuals are not making money from the consortium. King stressed that consortia include a conflicts of interest policy in their filing, informing the IRS that one will not personally benefit from the organization.

The countless benefits of the nonprofit designation should encourage all consortia to undergo this process. The speakers encouraged the participants to call the IRS toll-free at (877) 829-5500 if they have questions about the determination process or to check on the status of an application. The Neighborhood Networks consortia development team also provides some assistance to consortia seeking to become a nonprofit organization. Contact Neighborhood Networks toll-free at (888) 312 - 2743 if you are interested in receiving this technical assistance.