

Do Churches Need to Be A 501(c)(3)?

By Rickey Letson, CBF Congregational Stewardship Officer

Many congregations today are confused by whether they need 501(c)(3) status. This confusion comes through what they hear on the news, are told by denominational partners or as a result of advice they receive from people inside and outside of their church. To clear up the confusion, we talked with Jason Cogdill, who is a respected attorney in Winston-Salem, N.C. Jason has a love for CBF partner congregations, is devoted to the local church and often shares his professional expertise to advise CBF North Carolina congregations and beyond.

Rickey Letson: There seems to be a lot of confusion over the difference between a church having tax-exempt status and the need for a congregation to be a 501(c)(3) entity. Can you help clear up the confusion between the two?

Jason Cogdill: Under longstanding federal rules, a church meets the requirements of section 501(c)(3) of the Internal Revenue Code such that it is automatically considered tax-exempt and is not required to apply for and obtain formal recognition of exempt status from the IRS. This is different from a nonprofit organization that is not a church, which has to formally apply for recognition of tax-exempt status. As an example, Cooperative Baptist Fellowship has previously applied and confirmed its formal 501(c)(3) status with the IRS. A church is not required to go through that process. Churches are similarly exempt under state law, with no further action required.

RL: If I am understanding correctly, in many cases, there is not a need for a church to apply to be recognized as a 501(c)(3) entity. Is that correct?

JC: That is correct. The exemption applies automatically to any organized, active church.

RL: What are situations where applying for formal, recognized 501(c)(3) status might be advantageous for a church?

JC: The biggest point of need would be a future time when churches are no longer recognized as tax-exempt by the federal government. At that point, churches will be effectively treated as nonprofits and will need to apply for status as all other nonprofits do. In that scenario, any church that already has formal status would be well positioned. I do not anticipate that development soon, but it is not an entirely remote possibility.

More common, practical reasons when formal 501(c)(3) status may help a church is when the congregation is dealing with a third party that is not familiar with church exemption status or has strict rules that must be followed. I have observed this scenario with grant applications from certain foundations that work outside of the church world. This dynamic also occurs with pricing for a product/service from a vendor.

RL: We hear about denominational organizations like CBF providing umbrella 501(c)(3) status through a letter to partner churches. Can this process be a substitute for a church seeking formal, recognized 501(c)(3) on its own?

JC: It is true that a parent/umbrella nonprofit organization can apply to the IRS and receive a Group Exemption Letter that confirms recognized tax-exempt status of the parent's affiliated entities. In fact, CBF has previously gone through the Group Exemption process, and that may be of benefit to certain churches. Importantly, this approach is not required for any church.



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I view the Group Exemption Letter as a “second line of defense” or backup option if the church is required by an entity like the grant foundation or service provider to demonstrate tax-exempt status.

Separate from the Group Exemption Letter, if helpful for any specific situation, a church may inquire about a letter of support from a local, state, or national denominational partner that is a formal and recognized 501(c)(3) entity. Those support letters typically work well for a grant application or as written documentation of status to satisfy a vendor or other partner entity.

RL: What is the process and cost for doing the formal 501(c)(3) process?

JC: The 501(c)(3) process with the IRS is formally called Application for Recognition of Exemption. This is done through IRS Form 1023. The time and cost involved depends on the size of the organization. Some small organizations qualify for the expedited Form 1023-EZ process which saves time and money. Others need to do the full process, which is lengthy and potentially expensive if the organization hires outside tax or legal counsel. A common fee range would be \$3,000 for the full process. Overall, the timeline of the process typically ranges from 3-12 months.