

# Filing for Tax Exemption

Once your Articles of Incorporation have been filed, you should begin thinking about preparing a tax-exemption application for the IRS to acquire your non-profit status. The IRS has several different designations for different types of non-profits.

The most favorable designation is that which is given to non-profits organized in accordance with the purposes of section 501(c)(3) of the Internal Revenue Code. 501(c)(3) non-profits are generally characterized as being public benefit and non-political. Other non-profit designations including:

- Trade associations 501(c)(6)
- Fraternal organizations 501(c)(7)
- Labor organizations 501(c)(5)

Several student cooperatives have obtained (c)(7) status rather than (c)(3) status. This means that they are essentially treated as a mutual benefit organization like fraternities and sororities, rather than as public benefit organizations.

Student cooperatives can be characterized as 501(c)(3) charitable and educational public benefit corporations because:

- Co-op membership is open to all students. The co-op does not serve only a selected elite as with fraternal organizations.
- Student co-ops seek to advance the cause of education by providing housing, books, and other essential student services on a not-for-profit basis.

There are many advantages to having 501(c)(3) status over other types of federal non-profit status, including:

- Donations made to 501(c)(3)s are tax deductible. This means that when you do fundraising to create a scholarship fund, fix a roof, or send members on an educational trip, your supporters can write their donations off on their taxes. And larger donations--such as discounted property sales, estate bequests, etc.--are also more likely as they may provide some tax incentive for the donor.
- 501(c)(3)s are eligible for property tax exemption in some states. Full or partial exemption from property taxes are available to some co-ops through their 501(c)(3) status, which can save thousands of dollars a year and can be passed on to co-ops in the form of lower charges or added services.

The IRS may take up to three or four months to review your application. If your application is approved, the exemption generally may be applied retroactively for up to 15 months. You will be liable for federal income taxes once you incorporate, so the sooner you apply for tax-exempt status the better.