

IRS FORM 1023 SCHEDULES CHEAT SHEET

Which Schedules Are Required for my Application for Tax-Exempt Status?

The “long form” IRS Form 1023 Application for Tax-Exempt Status is 11 pages, not including the eight Form 1023 Schedules.

Each Schedule is designed to elicit additional information based upon the particularities of specific types of nonprofit which are not explored in the Form 1023.

Many types of nonprofits are not required to complete any of the Schedules to accompany their 1023 Application; however, if the IRS agent evaluating your 1023 does determine that your 1023 package is incomplete due to failure to include the appropriate schedule, it could result in weeks or months of additional delays beyond the “normal” approval period.

Over the past decade, the average approval window has often exceeded 12 months - meaning that any additional delay over a missing Schedule could result in loss of interest on the part of your organization’s potential donors, directors, and “do-ers”.

*Many nonprofits have closed their doors due to excessive delays in IRS approval for Tax-Exempt Status. To avoid this, read the overview of each schedule type below - **and if you decide you would like assistance in securing IRS approval under 501(c)3, [feel free to schedule a free consultation.](#)***

Schedule A - Churches

Technically, churches are not required to file a 501(c)3 application to be considered a tax-exempt organization. However, filing is recommended for several reasons, a few of which are listed below.

By filing Form 1023, you will obtain the all-important “Determination Letter” from the IRS that’s considered proof that the church is indeed a 501(c)3 tax-exempt organization. For churches, filing for 501(c)3 tax-exempt status has significant benefits:

- 1. Appealing to donors:** If you skip the 501(c)3 application, you won’t receive a tax-exempt Status Determination Letter from the IRS, which limits your fundraising options.

The Determination Letter is required by many, if not most, grant-making foundations from which you may seek support.

Individual donors often ask for a copy of the letter as a condition of giving, and rely upon this document to back up any tax write-offs for their contributions.

2. Legal and financial liability for contributors and congregants: If you do not obtain a Determination Letter, the IRS could later determine that the church did not qualify as a tax-exempt organization.

3. Uncertainty within your organization's team: Failure to file Form 1023 creates uncertainty among the management as to whether the church is, in fact, tax-exempt.

Moreover, completing your 1023 in-house is an excellent exercise to help your team really understand IRS requirements, crystallize your mission and purpose, and know where the organization is going.

4. Inability to Obtain a Nonprofit U.S. Postal Mailing Permit: With postal mailing rates increasing frequently, the ability to save about 40% on postage—particularly if you intend to communicate with members and/or use direct mail to fundraise—is crucial.

Any nonprofit that spends more than a couple of thousand dollars per year on mail must get a nonprofit mailing permit to avoid wasting precious donors' funds.

In an era of para-church organizations and ministries serving many of the functions of a church, Schedule A applies to organizations filing for recognition as a traditional, formalized church.

Because of our nation's strong historical association with religious freedom, churches generally have wide latitude and expanded protections - such as being the only 501(c)3 type not required to file the annual 990 "tax return".

The legal definition of church organization is ill-defined, so the IRS utilizes a mini-checklist of church "markers" to make a determination.

Churches must demonstrate a number of the following characteristics:

- Distinct legal existence
- Recognized creed and form of worship

- Definite and distinct ecclesiastical government
- Formal code of doctrine and discipline
- Distinct religious history
- Membership not associated with any other church or denomination
- Organization of ordained ministers
- Ordained ministers selected after completing prescribed courses of study
- Literature of its own
- Established places of worship
- Regular congregations
- Regular religious services
- Sunday schools for the religious instruction of the young
- Schools for the preparation of its members

Schedule B: Schools

Schedule B asks questions that determine whether your organization meets the IRS' definition of a school and is generally applied to primary schools, secondary schools, technical colleges, four year colleges, and universities, although some specialized schools such as a survival or yoga school may also qualify.

The school must include the following characteristics:

- Formal education must be the primary function
- There must be a regularly scheduled curriculum
- It must have a regular faculty and qualified teaching staff
- There must be a regularly enrolled student body
- It must have a separate location in which the formal instruction takes place

Schedule C: Hospitals or Medical Research Organizations

Schedule C is designated to hospitals or medical research organizations. Below is a checklist to see if you qualify:

- The organization provides medical or hospital care for inpatient and outpatient services, or for physical and/or mental issues.
- The organization is a hospital.
- The organization is a cooperative hospital organization
- The organization conducts medical research and education.
- The organization is a medical research facility operated in conjunction with a hospital.

Organizations that are not required to fill out Schedule C include homes for children or for the ageing, institutions whose principal purpose or function is to train handicapped individuals to pursue a vocation, and convalescent homes.

Schedule D: Supporting Organizations

Supporting organizations, which are defined as organizations whose sole purpose is to support one or more public charities, must fill out Schedule D. You must answer affirmatively to one of the three tests given by the IRS in order to qualify as a Schedule D supporting organization.

Here are the three tests:

- Test 1 - Is the organization operated, supervised, or controlled by the supported organization (comparable to a parent-subsidiary relationship) ?
- Test 2 - Is the organization supervised or controlled in connection with the supported organization (comparable to a brother-sister relationship) ?
- Test 3 - Is the organization operated in connection with the supported organization (responsive to the needs or demands of, and having significant involvement in the affairs of).

Schedule E: The 27 Month Rule

New organizations only have 27 months to submit a Form 1023 Application for Tax-Exempt Status with the IRS. If filed within that period, tax-exempt status and tax-deductibility date back to the date of the organization's inception.

However, when a Form 1023 application is filed late, the IRS grants 501(c)3 status "prospectively"—effective as of the postmark date on the application envelope.

Careful consideration should be given to potential tax implications for the organization as well as donors.

The 27-Month Rule is waived for churches, small public charities, subordinate groups covered by a Group Ruling, and those created before October 1969.

If more than 27 months have elapsed since founding your organization and there will not be tax liability problems by doing so, we recommend forming a new organization using the same founders, board, mission, etc.

The ease of doing so outweighs the risks of having your 501(c)3 application mired down in the IRS' bureaucratic process for months or years. If you're filing your 501(c)3 application after the 27 month period—and there are many legitimate reasons to do so—you may need professional guidance.

[Book a FREE consult call with one of our expert concierges](#) here and save yourself time, headaches, and money in the long run.

Schedule F: Low-Income Housing

Schedule F is reserved for those who provide housing for low-income, handicapped, or elderly tenants.

To qualify as a low-income housing organization you must provide discounted housing to a certain percentage of your residents. To qualify for handicapped or elderly housing, the facility must be set up to cater to the physical, emotional, and social needs of the residents regarding their specified conditions.

Schedule G: Successor to an Organization

Complete Schedule G if you are a successor to other organizations. An affirmative answer to any of the following questions would qualify you as a Successor organization:

1. Will you take over the day-to-day operations from another organization?
2. Will you take over 25 percent or more of the fair market value of the net assets of another organization?
3. Did you establish the conversion of an organization from for-profit to non-profit status?

Schedule H: Scholarships:

If your organization offers scholarships, fellowships, educational loans, or other educational grants to individuals and private foundations, then complete Schedule H.

If not, or if you are not 100% certain you will do so, do not mention scholarships on your application, as this will complicate your approval process and invite additional scrutiny from the IRS, which can lead to a "Request for Information", a complicated secondary IRS vetting process which can add months to the approval process.

If you would like to offer scholarships after you are approved and have some funds in the bank, it is easy to amend your bylaws and statement of purpose with the IRS when you file Form 990.

If you're certain you WILL offer these services, then you must ensure that any money you distribute for educational purposes fulfills the definition of "qualified expenses".

Qualified education expenses include:

- Tuition and fees, as well as course-related expenses such as books, supplies, and equipment.
- Room and board, travel, research, clerical help, and non-required equipment are NOT qualified education expenses.

Generally, monetary distributions to advance educational purposes must keep the following checklist in mind:

- A non-discriminatory selection in terms of racial preference
- If the selection is based on need and/or merit.
- If the selection is made to a charitable class
- A scholarship or fellowship is tax free to the recipient only if he or she is
- A candidate for a degree at an eligible educational institution; and
Uses the scholarship or fellowship to pay qualified education expenses.

In conclusion, many 501(c)3 applications are held up because the preparer simply forgot to include the proper Schedules.

Even the most capable people can find that, in the flurry of paperwork surrounding their nonprofit launch, one detail may be overlooked, causing weeks or months of delay - which is why we handle all of this for you in our [Enterprise 501\(c\)3 Formation Package](#).

This concludes the 1023 Schedules Cheat Sheet!

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