

Publication 557

Tax-Exempt Status for Your Organization

(Rev. January 2025)

For use in preparing

2025 Returns

Volume 3 of 8



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An *annual information return* includes an exact copy of the return (Forms 990, 990-EZ, 990-BL, 990-PF, 990-T, or 1065), and amended return, if any, and all schedules, attachments, and supporting documents filed with the IRS.

An annual information return doesn't include:

- Schedule A of Form 990-BL,
- Schedule K-1 of Form 1065, or
- Form 1120-POL.

In the case of a tax-exempt organization other than a private foundation, an annual information return doesn't include the names and addresses of contributors to the organization.



Form 990-T. All section 501(c)(3) organizations that file Form 990-T must make the return public, regardless of whether the organization is otherwise subject to the disclosure

requirements of section 6104. For example, although churches aren't required to file Form 1023 or Form 990 with the IRS, they must file the Form 990-T with the IRS to report unrelated business taxable income. Thus, churches must disclose Form 990-T to the public.

State colleges and universities that have been recognized by the IRS as exempt under section 501(a) as organizations described in section 501(c)(3) must disclose Form 990-T to the public. However, state colleges and universities that are subject to tax under section 511(a) solely by virtue of section 511(a)(2)(B) and that haven't been recognized by the IRS as exempt under section 501(a) as organizations described in section 501(c)(3) aren't required to make their Forms 990-T public.

Public Inspection of Exemption Application

An exempt organization must also make available for public inspection, without charge, its application for tax-exempt status. An *application for tax exemption* includes the application form (such as Forms 1023 or 1024), all documents and statements the IRS requires the organization to file with the form, any statement or other supporting document submitted by an organization in support of its application, and any letter or other document issued by the IRS concerning the application.

The application for exemption doesn't include:

- Any application from an organization that isn't yet recognized as exempt;
- Any material that is required to be withheld from public inspection, see *Material required to be withheld from public inspection*, next;

- In the case of a tax-exempt organization other than a private foundation, the names and addresses of contributors to the organization; or
- Any applications filed before July 15, 1987, if the organization didn't have a copy of the application on July 15, 1987.

If there is no prescribed application form, see Regulations section 301.6104(d)-1(b)(3)(ii) for a list of the documents that must be made available.

Material required to be withheld from public inspection. Material that is required to be withheld from public inspection includes:

- Trade secrets, patents, processes, styles of work, or apparatus for which withholding was requested and granted; •
- National defense material;

- Unfavorable rulings or determination letters issued in response to applications for tax exemption;
- Rulings or determination letters revoking or modifying a favorable determination letter;
- Technical advice memoranda relating to a disapproved application for tax exemption or the revocation or modification of a favorable determination letter;
- Any letter or document filed with or issued by the IRS relating to whether a proposed or accomplished transaction is a prohibited transaction under section 503; and
- Any other letter or document filed with or issued by the IRS which, although it relates to an organization's tax-exempt status as an organization described in section 501(c) or 501(d),

doesn't relate to that organization's application for tax exemption.

Time, place, and manner restrictions. The annual returns and exemption application must be made available for inspection, without charge, at the organization's principal, regional, and district offices during regular business hours. The organization can have an employee present during inspection, but must allow the individual to take notes freely and to photocopy at no charge if the individual provides the photocopying equipment. Generally, regional and district offices are those that have paid employees who together are normally paid for at least 120 hours a week.

If the organization doesn't maintain a permanent office, it must make its application for tax exemption and its annual information returns available for inspection at a reasonable location of its choice.

It must permit public inspection within a reasonable amount of time after receiving a request for inspection (normally not more than 2 weeks) and at a reasonable time of day. At its option, it can mail, within 2 weeks of receiving the request, a copy of its application for tax exemption and annual information returns to the requester in lieu of allowing an inspection. The organization can charge the requester for copying and actual postage costs only if the requester consents to the charge.

An organization that has a permanent office, but has no office hours or very limited hours during certain times of the year, must make its documents available during those periods when office hours are limited or not available as though it were an organization without a permanent office.

Furnishing copies. An exempt organization must also provide a copy of all, or any specific part or schedule,

of its three most recent annual information returns and/or exemption application to anyone who requests a copy either in person or in writing at its principal, regional, or district office during regular business hours. If the individual made the request in person, the copy must be provided on the same business day the request is made unless there are unusual circumstances. Unusual circumstances are defined in Regulations section 301.6104(d)-1(d)(1)(ii).

The organization must honor a written request for a copy of documents or specific parts or schedules of documents that are required to be disclosed. However, this rule only applies if the request:

- Is addressed to the exempt organization's principal, regional, or district office;
- Is sent to that address by mail, electronic mail (e-mail), facsimile (fax), or a private delivery service approved by the IRS; and

- Gives the address to where the copy of the document should be sent.

The organization must mail the copy within 30 days from the date it receives the request. The organization can request payment in advance and must then provide the copies within 30 days from the date it receives payment.

Fees for copies. The organization can charge a reasonable fee for providing copies. It can charge no more for the copies than the per page rate the IRS charges for providing copies. The IRS can't charge more for copies than the fees listed in the Freedom of Information Act (FOIA) fee schedule.

Although the IRS charges no fee for the first 100 pages, the organization can charge a fee for all copies. For noncommercial requesters, the FOIA schedule currently provides a rate of \$0.10 per page for black and white pages, and \$0.20 per page for color pages.

The organization can also charge the actual postage costs it pays to provide the copies.

Regional and district offices. Generally, the same rules regarding public inspection and providing copies of applications and annual information returns that apply to a principal office of an exempt organization also apply to its regional and district offices. However, a regional or district office isn't required to make its annual information return available for inspection or to provide copies until 30 days after the date the return is required to be filed (including any extensions) or is actually filed, whichever is later.

Local and subordinate organizations. A local or subordinate organization is an exempt organization that didn't file its own application for tax exemption because it is covered by a group exemption letter.

Generally, a local or subordinate organization of an exempt organization must, upon request, make available for public inspection, or provide copies of:

1. The application submitted to the IRS by the central or parent organization to obtain the group exemption letter, and
2. Those documents which were submitted by the central or parent organization to include the local or subordinate organization in the group exemption letter.

However, if the central or parent organization submits to the IRS a list or directory of local or subordinate organizations covered by the group exemption letter, the local or subordinate organization is required to provide only the application for the group exemption ruling and the pages of the list or directory that specifically refer to it.

The local or subordinate organization must permit public inspection or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day. In lieu of allowing an inspection, the local or subordinate organization can mail a copy of the applicable documents to the person requesting inspection within the same time period. In that case, the organization can charge the requester for copying and actual postage costs only if the requester consents to the charge. If the local or subordinate organization receives a written request for a copy of its application for exemption, it must fulfill the request in the time and manner specified earlier.

The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of the application for group exemption and the material submitted by the central or parent organization to include a local or subordinate organization in the group ruling. If the central or parent organization submits to the IRS a list or directory of local or subordinate organizations covered by the group exemption letter, it must make the list or directory available for public inspection, but it is required to provide copies only of those pages of the list or directory that refer to particular local or subordinate organizations specified by the requester. The central or parent organization must fulfill such requests in the time and manner specified earlier.

A local or subordinate organization that doesn't file its own annual information return (because it is affiliated with a central or parent organization that files a group return)

must, on request, make available for public inspection, or provide copies of, the group returns filed by the central or parent organization. However, if the group return includes separate schedules for each local or subordinate organization included in the group return, the local or subordinate organization receiving the request can omit any schedules relating only to other organizations included in the group return. The local or subordinate organization must permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day.

In lieu of allowing an inspection, the local or subordinate organization can mail a copy of the applicable documents to the person requesting inspection within the same time period.

In this case, the organization can charge the requester for copying and actual postage costs only if the requester consents to the charge. If the local or subordinate organization receives a written request for a copy of its annual information return, it must fulfill the request by providing a copy of the group return in the time and manner specified earlier. The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of group returns filed by the central or parent organization. The central or parent organization must fulfill such requests in the time and manner specified earlier.

If an organization fails to comply, it may be liable for a penalty. See Penalties, later.

Making applications and annual information returns widely available. An exempt organization doesn't have to comply with requests for copies of its annual information returns or exemption application

if it makes them widely available. However, making these documents widely available doesn't relieve the organization from making its documents available for public inspection.

The organization can make its application and annual information returns widely available by posting the application and annual information returns on the Internet. For the rules to follow so that the Internet posting will be considered widely available, see Regulations section 301.6104(d)-2(b).

If the organization has made its application for tax exemption and/or annual information returns widely available, it must inform any individual requesting a copy where the documents are available, including the website address on the Internet, if applicable. If the request is made in person, the notice must be provided immediately. If the request is made in writing, the notice must be provided within 7 days.

Harassment campaign. If the tax-exempt organization is the subject of a harassment campaign, the organization may not have to fulfill requests for information.

For more information, see Regulations section 301.6104(d)-3.

Political Organization Reporting Forms

Forms 8871 and 8872 (discussed earlier under *Reporting Requirements for a Political Organization*) are open to public inspection.

Form 8871. Form 8871 (including any supporting papers), and any letter or other document the IRS issues with regard to Form 8871, are open to public inspection online at [IRS.gov/ polorgs](https://www.irs.gov/polorgs).

Form 8872. Form 8872 (including Schedules A and B) are open to public inspection online at [IRS.gov/polorgs](https://www.irs.gov/polorgs).

Electronically filed Forms 8871 and 8872 are available online 48 hours after the form has been filed.

Forms 8872 that are filed by mail are available online after being imaged by the IRS. These forms are considered widely available if you provide the online address to the requester. In addition, your organization must make a copy of these materials available for public inspection during regular business hours at the organization's principal office and at each of its regional or district offices having at least three paid employees.

Penalties

The penalty for failure to allow public inspection of annual returns is \$20 for each day the failure continues. The maximum penalty on all persons for failures involving any one return is \$10,000.

The penalty for failure to allow public inspection of exemption applications is \$20 for each day the failure continues.

The penalty for willful failure to allow public inspection of a return or exemption application is \$5,000 for each return or application. The penalty also applies to a willful failure to provide copies.

The penalty for failure to allow public inspection of a political organization's section 527 notice (Form 8871) is \$20 for each day the failure continues.

The penalty for failure to allow public inspection of a section 527 organization's contributions and expenditures report (Form 8872) is \$20 for each day the failure continues. The maximum penalty on all persons for failures involving any one report is \$10,000.

Required Disclosures

Certain exempt organizations must disclose to the IRS or the public certain information about their activities.

Generally, an organization discloses this information by entering it on the appropriate lines of its annual return. In addition, there are disclosure requirements for:

- Solicitation of nondeductible contributions,
- Sales of information or services that are available free from the government,
- Dues paid to the organization that aren't deductible because they are used for lobbying or political activities, and
- Prohibited tax shelter transactions.

Solicitation of Nondeductible Contributions

Solicitations for contributions or other payments by certain exempt organizations (including lobbying groups and political action committees) must include a statement that payments to those organizations aren't deductible as charitable contributions for federal income tax purposes.

The statement must be included in the fundraising solicitation and be conspicuous and easily recognizable.

Organizations subject to requirements.

An organization must follow these disclosure requirements if it is exempt under section 501(c), other than section 501(c)(1), or under section 501(d), unless the organization is eligible to receive tax deductible charitable contributions under section 170(c).

These requirements must be followed by, among others:

1. Social welfare organizations (section 501(c)(4));
2. Labor unions (section 501(c)(5));
3. Trade associations (section 501(c)(6));
4. Social clubs (section 501(c)(7));
5. Fraternal organizations (section 501(c)(8) and 501(c)(10)) (however, fraternal organizations described in

section 170(c)(4) must follow these requirements only for solicitations for funds that are to be used for noncharitable purposes not described in section 170(c)(4));

6. Any political organization described in section 527(e), including political campaign committees and political action committees; and
7. Any organization not eligible to receive tax-deductible contributions if the organization or a predecessor organization was, at any time during the 5-year period ending on the date of the fundraising solicitation, an organization of the type to which this disclosure requirement applies.

Fundraising solicitation. This disclosure requirement applies to a fundraising solicitation if all of the following are true.

1. The organization soliciting the funds normally has gross receipts over \$100,000 per year.
2. The solicitation is part of a coordinated fundraising campaign that is soliciting more than 10 persons during the year.
3. The solicitation is made in written or printed form, by television or radio, or by telephone.

Penalties. Failure by an organization to make the required statement will result in a penalty of \$1,000 for each day the failure occurred, up to a maximum penalty of \$10,000 for a calendar year. No penalty will be imposed if it is shown that the failure was due to reasonable cause. If the failure was due to intentional disregard of the requirements, the penalty may be higher and isn't subject to a maximum amount.

Sales of Information or Services Available Free from Government

Certain organizations that offer to sell to individuals (or solicit money for) information or routine services that could be readily obtained free (or for a nominal fee) from the federal government must include a statement that the information or service can be so obtained. The statement must be made in a conspicuous and easily recognized format when the organization makes an offer or solicitation to sell the information or service. Organizations affected are those exempt under section 501(c) or 501(d) and political organizations defined in section 527(e).

Penalty. A penalty is provided for failure to comply with this requirement if the failure is due to intentional disregard of the requirement. The penalty is the greater of \$1,000 for each day the failure occurred, or 50% of the total cost of all offers and

solicitations that were made by the organization the same day that it fails to meet the requirement.

Dues Used for Lobbying or Political Activities

Certain exempt organizations must notify anyone paying dues to the organization whether any part of the dues isn't deductible because it is related to lobbying or political activities.

An organization must provide the notice if it is exempt from tax under section 501(a) and is one of the following.

1. A social welfare organization described in section 501(c)(4) that isn't a veterans' organization.
2. An agricultural or horticultural organization described in section 501(c)(5).

3. A business league, chamber of commerce, real estate board, or other organization described in section 501(c)(6).

However, an organization described in (1), (2), or (3) doesn't have to provide the notice if it establishes that substantially all the dues paid to it aren't deductible anyway or if certain other conditions are met. For more information, see Rev. Proc. 98-19, 1998-1 C.B. 547 (or later update).

If the organization doesn't provide the required notice, it may have to pay a tax that is reported on Form 990-T. But the tax doesn't apply to any amount on which the section 527 tax has been paid on Form 1120-POL. See *Political Organization Income Tax Return*, earlier.

For more information about nondeductible dues, see *Deduction not allowed for dues used for political or legislative activities*.
under *Section 501(c)(6) organizations*, later.

Prohibited Tax Shelter Transactions

Every exempt organization (as defined in section 4965(c)) that is a party to a prohibited tax shelter transaction is required to disclose to the IRS the following information:

- Whether such organization is a party to the prohibited tax shelter transaction (as defined in section 4965(e)); and
- The identity of any other party to the transaction that is known to the exempt organization.

Party to a prohibited tax shelter

transaction. An exempt organization is a party to a prohibited tax shelter transaction if the organization:

1. Facilitates a prohibited tax shelter transaction by reason of its tax-exempt, tax-indifferent, or tax-favored status; or

2. Is identified in published guidance by type, class, or role as a party to a prohibited tax shelter transaction.

See Prohibited Tax Shelter Transactions, later, for further information.

Disclosure. A single disclosure is made by the organization for each prohibited tax shelter transaction. The disclosure is made on Form 8886-T, Disclosure by Tax-Exempt Entity Regarding Prohibited Tax Shelter Transaction.

Due date. Generally, for exempt organizations described in 1 above, the disclosure is due on or before May 15 of the calendar year following the close of the calendar year that the exempt organization entered into the prohibited tax shelter transaction. If any date falls on a Saturday, Sunday, or legal holiday, substitute the next business day.

However, the disclosure for subsequently listed transactions (as defined in section 4965(e)(2)) is due on or before May 15 of the calendar year following the close of the calendar year that the transaction was identified by the Secretary as a listed transaction.

The disclosure for exempt organizations described in 2 above is due on or before the date the first tax return (whether original or amended return) is filed that reflects a reduction or elimination of the exempt organization's liability for applicable federal employment, excise, or unrelated business income taxes that is derived directly or indirectly from tax consequences or tax strategy described in the published guidance that lists the transaction.

Penalty. Exempt organizations that fail to file the required disclosure are subject to a nondisclosure penalty of \$100 for each day

the failure continues with a maximum penalty for any one disclosure of \$50,000.

Also, if the IRS makes a written demand on any exempt organization subject to this penalty, giving the organization a reasonable date to make the disclosure, and the organization fails to make the disclosure by that date, the organization is subject to a penalty of \$100 for each day after the date specified by the IRS until disclosure is made (with a maximum penalty for any one disclosure of \$10,000).

Miscellaneous Rules

Organizational Changes and Exempt Status

If you've changed your form or place of organization, review [*Rev. Proc. 2018-15, 2018-9 I.R.B. 379*](#), to determine whether you're required to file a new exemption application.

If your organization becomes inactive for a period of time but doesn't cease being an entity under the laws of the state in which it was formed, you will have to continue to file an annual information return during the period of inactivity, unless a filing exception applies. If your organization has been liquidated, dissolved, terminated, or substantially contracted, you should file your annual return of information by the 15th day of the 5th month after the change and follow the applicable instructions for the form.

If your organization amends its articles of organization or its internal regulations (bylaws), then follow the instructions for Form 990, Form 990-EZ, or Form 990-PF for reporting these changes. Regardless of whether your organization files an annual information return, you may also report these changes to the EO Determinations office; however,

such reporting doesn't relieve your organization from reporting the changes on its annual information return. For information about informing the IRS of a termination or merger, see Publication 4779, Facts about Terminating or Merging Your Exempt Organization.

An organization should report new significant program services or significant changes in how it conducts program services, and significant changes to its organizational documents, on its Form 990 rather than in a letter to EO Determinations. EO Determinations no longer issues letters confirming the tax-exempt status of organizations that report new services or significant changes, or changes to organizational documents.

Change in Accounting Period

The procedures that an organization must follow to change its accounting period differ for an independent organization and for a

central organization that seeks a group change for its subordinate organizations.

Independent organizations. If an organization isn't required to file an annual information return, but files a Form 990-T, it can change its annual accounting period by timely filing the Form 990-T. If neither an information return nor a Form 990-T is required to be filed, an organization must notify the IRS by letter that it has changed its fiscal period.

If an organization changed its annual accounting period at any time within the previous 10 years and within that time it had a filing requirement, the organization must file a Form 1128, Application to Adopt, Change, or Retain a Tax Year, with its timely filed annual information return or Form 990-T, as appropriate, whether or not the filing of the information return or Form 990-T would have otherwise been required for that year.

Central organizations. A central organization can obtain approval for a group change in an annual accounting period for its subordinate organizations on a group basis only by filing Form 1128 with the IRS Service Center where it files its annual information return. For more information, see Rev. Proc. 76-10, 1976-1 C.B. 548, as modified by Rev. Proc. 79-3, 1979-1 C.B. 483, or any later updates.

Due date. Form 1128 must be filed by the 15th day of the 5th month following the close of the short period.

Modify or Obtain an NTEE Code.

Organizations that wish to modify or obtain a National Taxonomy of Exempt Entities (NTEE) Code should send a written request to the Correspondence Unit with the relevant facts, including the Code currently assigned, if any, and the requested Code, as well as who selected the currently assigned Code initially,

if known. The Correspondence Unit will refer to EO Determinations, if necessary, and will notify the organization if a form or user fee is required to make the requested change. The written request must be sent or faxed to:

Internal Revenue Service
Attn: Correspondence Unit
P.O. Box 2508, Room 6403
Cincinnati, OH 45201
Fax: (855) 204-6184

Express and Overnight Delivery:

Internal Revenue Service
Attn: Correspondence Unit
500 Main Street, Room 6403
Cincinnati, OH 45202

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3.

Section 501(c)(3) Organizations

Introduction

An organization may qualify for exemption from federal income tax under section 501(c)(3) if it is organized and operated exclusively for one or more of the following purposes.

- Religious.
- Charitable.
- Scientific.
- Testing for public safety.
- Literary.
- Educational.
- Fostering national or international amateur sports competition

(but only if none of its activities involve providing athletic facilities or equipment; however, see *Amateur Athletic Organizations*, later in this chapter).

- The prevention of cruelty to children or animals.

To qualify, the organization must be organized as a corporation (including a limited liability company), unincorporated association, or trust. Sole proprietorships, partnerships, individuals, or loosely associated groups of individuals won't qualify.

Examples. Qualifying organizations include:

- Nonprofit old-age homes,
- Parent-teacher associations,
- Charitable hospitals or other charitable organizations,
- Alumni associations,
- Schools,

- Chapters of the Red Cross,
- Boys' or Girls' Clubs, and
- Churches.

Child care organizations. The term *educational purposes* includes providing for care of children away from their homes if substantially all the care provided is to enable individuals (the parents) to be gainfully employed and the services are available to the general public.

Instrumentalities. A state or municipal instrumentality may qualify under section 501(c)(3) if it is organized as a separate entity from the governmental unit that created it and if it otherwise meets the organizational and operational tests of section 501(c)(3). Examples of a qualifying instrumentality may include state schools, universities, or hospitals.

However, if an organization is an integral part of the local government or possesses governmental powers, it doesn't qualify for exemption. A state or municipality itself doesn't qualify for exemption under section 501(c)(3).

Topics

This chapter discusses:

- Contributions to 501(c)(3) organizations,
- Applications for recognition of exemption,
- Articles of Organization,
- Educational organizations and private schools,
- Organizations providing insurance,
- Other section 501(c)(3) organizations,
- Private foundations and public charities, and
- Lobbying expenditures.

Useful Items

You may want to see:

Forms (and Instructions)

- ☐ **1023** Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code
- ☐ **1023-EZ** Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

Form 1023 and Form 1023-EZ must be filed electronically on Pay.gov.

See chapter 6 for information about getting publications and forms.

Contributions to 501(c)(3) Organizations

Contributions to domestic organizations described in this chapter, except organizations testing for public safety, are

deductible as charitable contributions on the donor's federal income tax return.

Fundraising events. If the donor receives something of value in return for the contribution, a common occurrence with fundraising efforts, part or all of the contribution may not be deductible.

This may apply to fundraising activities such as charity balls, bazaars, banquets, auctions, concerts, athletic events, and solicitations for membership or contributions when merchandise or benefits are given in return for payment of a specified minimum contribution.

If the donor receives or expects to receive goods or services in return for a contribution to your organization, the donor can't deduct any part of the contribution unless the donor intends to, and does, make a payment greater than the fair market value of the goods or services.

If a deduction is allowed, the donor can deduct only the part of the contribution, if any, that is more than the fair market value of the goods or services received. You should determine in advance the fair market value of any goods or services to be given to contributors and tell them, when you publicize the fundraising event or solicit their contributions, how much is deductible and how much is for the goods or services. See *Disclosure of Quid Pro Quo Contributions* in chapter 2.

Exemption application not filed. Generally, donors can't deduct any charitable contribution to an organization that is required to apply for recognition of exemption but has not done so.

Separate fund—contributions that are deductible. An organization that is exempt from federal income tax other than as an organization described in section 501(c)(3) can, if it desires, establish a fund,

separate and apart from its other funds, exclusively for religious, charitable, scientific, literary, or educational purposes, fostering national or international amateur sports competition, or for the prevention of cruelty to children or animals.

If the fund is organized and operated exclusively for these purposes, it may qualify for exemption as an organization described in section 501(c)(3), and contributions made to it will be deductible, as provided by section 170. A fund with these characteristics must be organized in such a manner as to prohibit the use of its funds upon dissolution, or otherwise, for the general purposes of the organization creating it.

Personal benefit contracts. Generally, charitable deductions won't be allowed for a transfer to, or for the use of, a section 501(c)(3) or (c)(4) organization if in connection with the transfer:

- The organization directly or indirectly pays, or previously paid, a premium on a personal benefit contract for the transferor; or
- There is an understanding or expectation that anyone will directly or indirectly pay a premium on a personal benefit contract for the transferor.

A personal benefit contract with respect to the transferor is any life insurance, annuity, or endowment contract, if any direct or indirect beneficiary under the contract is the transferor, any member of the transferor's family, or any other person designated by the transferor.

Certain annuity contracts. If an organization incurs an obligation to pay a charitable gift annuity, and the organization purchases an annuity contract to fund the obligation, individuals receiving payments under the charitable gift annuity won't be treated as indirect beneficiaries if the

organization owns all of the incidents of ownership under the contract, is entitled to all payments under the contract, and the timing and amount of the payments are substantially the same as the timing and amount of payments to each person under the obligation (as such obligation is in effect at the time of the transfer).

Certain contracts held by a charitable remainder trust. An individual won't be considered an indirect beneficiary under a life insurance, annuity, or endowment contract held by a charitable remainder annuity trust or a charitable remainder unitrust solely by reason of being entitled to the payment if the trust owns all of the incidents of ownership under the contract, and the trust is entitled to all payments under the contract.

Excise tax. If the premiums are paid in connection with a transfer for which a deduction isn't allowable under the deduction denial rule, without regard to when the

transfer to the charitable organization was made, an excise tax will be applied that is equal to the amount of the premiums paid by the organization on any life insurance, annuity, or endowment contract. The excise tax doesn't apply if all of the direct and indirect beneficiaries under the contract are organizations.

Excise taxes. A charitable organization liable for excise taxes must file Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code. Generally, the due date for filing Form 4720 occurs on the 15th day of the 5th month following the close of the organization's tax year.

Indoor tanning services. If your organization provides an indoor tanning bed service, the ACA imposed a 10% excise tax on services provided after June 30, 2010. For more information, go to [IRS.gov](https://www.irs.gov) and select *Affordable Care Act Tax Provisions*.

Application for Recognition of Exemption

This discussion describes certain information to be provided upon application for recognition of exemption by all organizations created for any of the purposes described earlier in this chapter. See the organization headings that follow for specific information your organization may need to provide.

Form 1023 or Form 1023-EZ. Your organization must file its application for recognition of exemption on Form 1023 or Form 1023-EZ. See chapter 1 and the instructions accompanying Form 1023 or Form 1023-EZ for the procedures to follow in applying. Some organizations aren't required to file Form 1023 or Form 1023-EZ. See *Organizations Not Required to File Form 1023 or 1023-EZ*, later.

If you are a small organization, you may be eligible to apply for recognition of exemption by filing Form 1023-EZ instead of Form 1023. Specific eligibility requirements apply. You can find more information about eligibility to use Form 1023-EZ at [Instructions for Form 1023-EZ](#).



Additional information to help you complete your application can be found online. Go to Exemption

Requirement – Section 501(c)(3)

Organizations and select the link at the bottom of the web page for step by step help with the application process.

See [Exemption Requirements - Section 501\(c\)\(3\) Organizations](#).

Form 1023 and accompanying statements must show that all of the following are true.

1. The organization is organized exclusively for, and will be operated exclusively for, one or more of the purposes (religious, charitable, etc.)

specified in the introduction to this chapter.

2. No part of the organization's net earnings will inure to the benefit of private shareholders or individuals. You must establish that your organization won't be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests.
3. The organization won't, as a substantial part of its activities, attempt to influence legislation (unless it elects to come under the provisions allowing certain lobbying expenditures) or participate to any extent in a political campaign for or against any candidate for public office.

See Political activity, next, and Lobbying Expenditures, near the end of this chapter.

Political activity. If any of the activities (whether or not substantial) of your organization consist of participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for public office, your organization won't qualify for tax-exempt status under section 501(c)(3). Such participation or intervention includes the publishing or distributing of statements. See the Form 1023 instructions.

Whether your organization is participating or intervening, directly or indirectly, in any political campaign on behalf of (or in opposition to) any candidate for public office depends upon all of the facts and circumstances of each case.

Certain voter education activities or public forums conducted in a nonpartisan manner may not be prohibited political activity under section 501(c) (3), while other so-called voter education activities may be prohibited.

Effective date of exemption. Most organizations described in this chapter that were organized after October 9, 1969, won't be treated as tax exempt unless they apply for recognition of exemption by filing Form 1023 or Form 1023-EZ. These organizations won't be treated as tax exempt for any period before they file Form 1023 or Form 1023-EZ, unless they file the form within 27 months from the end of the month in which they were organized. If the organization files the application within this 27-month period, the organization's exemption will generally be recognized retroactively to the date it was organized. Otherwise, exemption will be recognized only from the date of receipt.

The date of receipt is the date of the U.S. postmark on the cover in which an exemption application is mailed or, if no postmark appears on the cover, the date the application is stamped as received by the IRS or, for an electronic submission, the date submitted to the IRS.

Private delivery service. You can use certain private delivery services (PDS) designated by the IRS to meet the “timely mailing as timely filing” rule for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the current list of designated services.

The PDS can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you're using a PDS, go to [IRS.gov/PDStreetAddresses](https://www.irs.gov/PDStreetAddresses).



Private delivery services can't deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Amendments to organizing documents required. If an organization is required to alter its activities or to make substantive amendments to its organizing document, the determination letter recognizing its exempt status will be effective as of the date the changes are made. If only a nonsubstantive amendment is made, exempt status will be effective as of the date it was organized, if the application was filed within the 27-month period, or the date the application was filed.

Discretionary extension of time for filing. An organization that fails to file a Form 1023 within the 27-month period may be granted an extension to file if it submits evidence (including affidavits) to establish that:

1. It acted reasonably and in good faith, and
2. Granting a discretionary extension won't prejudice the interests of the government.

The discretionary extension of the time for filing Form 1023 does not apply if granting relief would result in the organization's exempt status being automatically revoked for failure to file a required annual information return or notice for 3 consecutive years, effective before the application date.

Additionally, organizations that are not required to apply for recognition of exemption in order to be exempt are not eligible to request the discretionary extension. However, these organizations may be exempt prior to the effective date the IRS recognizes exempt status because they may be tax-exempt under Section 501(c) (3) without filing an application. See Organizations Not Required to File Form 1023 or Form 1023-EZ.

How to show reasonable action and good faith. The following factors are considered in determining whether an organization acted reasonably and showed good faith.

1. The organization failed to file an application because of intervening events beyond its control.
2. The organization exercised reasonable diligence (taking into account the complexity of the filing or issue and the organization's experience in these matters) but wasn't aware of the application filing requirement.
3. The organization reasonably relied upon the written advice of the IRS.
4. The organization reasonably relied upon the advice of a qualified tax professional who failed to file or advise the organization to file Form 1023 or Form 1023-EZ.

An organization can't rely on the advice of a tax professional if it knows or should know that they aren't competent to render advice on filing exemption applications or isn't aware of all the relevant facts.

5. The organization filed required Form 990-series returns or notices consistent with its requested status.

Not acting reasonably and in good faith. An organization has not acted reasonably and in good faith under the following circumstances.

1. It seeks to change a return position for which an accuracy-related penalty has been or could be imposed at the time the relief is requested.
2. It was informed of the requirement to file and related tax consequences, but chose not to file.

3. It uses hindsight in requesting relief. The IRS won't ordinarily grant an extension if specific facts have changed since the due date that makes filing an application advantageous to an organization.
4. Granting the request for relief would result in the organization's tax-exempt status being automatically revoked effective before the application date.

Prejudicing the interest of the government. Prejudice to the interest of the government results if granting an extension of time to file to an organization results in a lower total tax liability for the years to which the filing applies than would have been the case if the organization had filed on time. Before granting an extension, the IRS can require the organization requesting it to submit a statement from an independent auditor certifying that no prejudice will result if the extension is granted.

The interests of the government are ordinarily prejudiced if the tax year in which the application should have been filed (or any tax year that would have been affected had the filing been timely) are closed by the statute of limitations before relief is granted. Therefore, the request for relief will not be granted if the period of limitations on assessment under section 6501(a) for any taxable year for which the organization claims tax-exempt status has expired prior to the date of application. The IRS can condition a grant of relief on the organization providing the IRS with a statement from an independent auditor certifying that the interests of the Government aren't prejudiced.

Procedure for requesting extension. To request a discretionary extension, an organization must submit the relevant portions of Form 1023, Schedule E, including describing in detail the events that led to the failure to apply and to the discovery of that

failure. If the organization relied on a tax professional's advice, the schedule should describe the engagement and responsibilities of the professional and the extent to which the organization relied on the tax professional. An organization applying for section 501(c)(3) status can no longer request the extension by filing Form 1023-EZ and then submitting correspondence to the IRS.

A request for this relief in connection with an application for exemption doesn't require payment of an additional user fee. Also, a request for relief under the automatic 12-month extension doesn't require payment of a user fee.

More information. For more information about these procedures, see Regulations sections 301.9100-1, 301.9100-2, and 301.9100-3, along with the current year issued revenue procedures.

Notification from the IRS. Organizations filing Form 1023 or Form 1023-EZ and satisfying all requirements of section 501(c)(3) will be notified of their exempt status in writing.

Organizations Not Required to File Form 1023 or Form 1023-EZ

Some organizations aren't required to file Form 1023 or 1023-EZ. These include:

- Churches, interchurch organizations of local units of a church, conventions or associations of churches, or integrated auxiliaries of a church, such as a men's or women's organization, religious school, mission society, or youth group.
- Any organization (other than a private foundation) normally having annual gross receipts of not more than \$5,000 (see *Gross receipts test*, later).

These organizations are exempt automatically if they meet the requirements of section 501(c)(3). However, such organizations will not appear on the Tax-Exempt Organization Search list of organizations eligible to receive tax-deductible contributions. These organizations also cannot obtain a written affirmation of their exempt status. To be included in the IRS database of exempt organizations and be eligible to receive a written determination or affirmation of exempt status, these organization must file Form 1023 or 1023-EZ.

Filing Form 1023 or 1023-EZ to establish exemption. If the organization wants to establish its exemption with the IRS and receive a determination letter recognizing its exempt status, it should file Form 1023 or 1023-EZ (if eligible). By establishing its exemption, potential contributors are assured by the IRS that contributions will be deductible.

A subordinate organization (other than a private foundation) covered by a group exemption letter doesn't have to submit a Form 1023 or Form 1023-EZ for itself.

Private foundations. See *Private Foundations and Public Charities*, later in this chapter, for more information about the additional notice required from an organization in order for it not to be presumed to be a private foundation and for the additional information required from a private foundation claiming to be an operating foundation.

Gross receipts test. For purposes of the gross receipts test, an organization normally doesn't have more than \$5,000 annually in gross receipts if:

1. During its first tax year the organization received gross receipts of \$7,500 or less,

2. During its first 2 years the organization had a total of \$12,000 or less in gross receipts, and
3. In the case of an organization that has been in existence for at least 3 years, the total gross receipts received by the organization during the immediately preceding 2 years, plus the current year, are \$15,000 or less.

An organization with gross receipts more than the amounts in the gross receipts test, unless otherwise exempt from filing Form 1023 or Form 1023-EZ, must apply for recognition of exemption within 90 days after the end of the period in which the amounts are exceeded. For example, an organization's gross receipts for its first tax year were less than \$7,500, but at the end of its second tax year its gross receipts for the 2-year period were more than \$12,000. The organization must apply for recognition of exemption within 90 days after the end of its second tax year.

If the organization had existed for at least 3 tax years and had met the gross receipts test for all prior tax years but fails to meet the requirement for the current tax year, its tax-exempt status for the prior years won't be lost even if it does not apply for recognition of exemption within 90 days after the close of the current tax year. However, the organization won't be treated as a section 501(c)(3) organization for the period beginning with the current tax year and ending with the filing of its application for recognition of exemption .

Example. An organization is organized and operated exclusively for charitable purposes and isn't a private foundation. It was incorporated on January 1, 2017, and files returns on a calendar-year basis. It didn't apply for recognition of exemption. The organization's gross receipts during the years 2017 through 2020 were as follows:

2017.....	\$3,600
2018.....	2,900
2019.....	400
2020.....	12,600

The organization's total gross receipts for 2017, 2018, and 2019 were \$6,900. Therefore, it didn't have to apply for recognition of exemption and is exempt for those years. However, for 2018, 2019, and 2020 the total gross receipts were \$15,900. Therefore, the organization must apply for recognition of exemption within 90 days after the end of its 2020 tax year. If it doesn't apply within this time period, it won't be exempt under section 501(c)(3) for the period beginning with tax year 2020 ending when the application for recognition of exemption is received by the IRS.

The organization, however, won't lose its exempt status for the tax years ending before January 1, 2020.

The IRS will consider applying the Commissioner's discretionary authority to extend the time for filing an application for recognition of exemption. See the procedures for this extension discussed earlier.

Articles of Organization

Your organization must be a legal entity (corporation, trust, or association) separate from its organizers and must have written articles of organization. Depending upon the type of entity, its articles of organization may be a corporate charter (filed articles of incorporation), trust instrument, articles of association, or any other written instrument by which the organization was created. If applying for recognition of exemption using Form 1023, a conformed copy of the articles of organization must be uploaded with the

application for recognition of exemption. See Form 1023, Part II. An organization applying for exemption using Form 1023-EZ does not submit a copy of the articles of organization with its application; however, the organization could be asked to provide a copy at any time as part of a compliance check or examination.

Organizational Test

The articles of organization must limit the organization's purposes to one or more of those described at the beginning of this chapter and mustn't expressly empower it to engage, other than as an insubstantial part of its activities, in activities that don't further one or more of those purposes. These conditions for exemption are referred to as the organizational test.

Section 501(c)(3) is the provision of law that grants exemption to the organizations described in this chapter.

Therefore, the organizational test may be met if the purposes stated in the articles of organization are limited in some way by reference to section 501(c)(3).

The requirement that your organization's purposes and powers must be limited by the articles of organization isn't satisfied if the limit is contained only in the bylaws or other rules or regulations. Moreover, the organizational test isn't satisfied by statements of your organization's officers that you intend to operate only for exempt purposes. Also, the test isn't satisfied by the fact that your actual operations are for exempt purposes.

In interpreting an organization's articles, the law of the state where the organization was created is controlling. If an organization contends that the terms of its articles have a different meaning under state law than their generally accepted meaning,

such meaning must be established by a clear and convincing reference to relevant court decisions, opinions of the state attorney general, or other appropriate state authorities.

The following are examples illustrating the organizational test.

Example 1. Articles of organization state that an organization is formed exclusively for literary and scientific purposes within the meaning of section 501(c)(3). These articles appropriately limit the organization's purposes. The organization meets the organizational test.

Example 2. An organization, by the terms of its articles, is formed to engage in research without any further description or limitation. The organization won't be properly limited as to its purposes since all research isn't scientific. The organization doesn't meet the organizational test.

Example 3. An organization's articles state that its purpose is to receive contributions and pay them over to organizations that are described in section 501(c)(3) and exempt from taxation under section 501(a). The organization meets the organizational test.

Example 4. If a stated purpose in the articles is the conduct of a school of adult education and its manner of operation is described in detail, such a purpose will be satisfactorily limited.

Example 5. If the articles state the organization is formed for charitable purposes, without any further description, such language ordinarily will be sufficient since the term charitable has a generally accepted legal meaning. On the other hand, if the purposes are stated to be charitable, philanthropic, and benevolent, the organizational requirement won't be met since the terms philanthropic and benevolent have no generally accepted legal meaning

and, therefore, the stated purposes may, under the laws of the state, permit activities that are broader than those intended by the exemption law.

Example 6. If the articles state an organization is formed to promote American ideals, or to foster the best interests of the people, or to further the common welfare and well-being of the community, without any limitation or provision restricting such purposes to accomplishment only in a charitable manner, the purposes won't be sufficiently limited. Such purposes are vague and may be accomplished other than in an exempt manner.

Example 7. A stated purpose to operate a hospital doesn't meet the organizational test since it isn't necessarily charitable. A hospital may or may not be exempt depending on the manner in which it is operated.

Example 8. An organization that is expressly empowered by its articles to carry on social activities won't be sufficiently limited as to its power, even if its articles state that it is organized and will be operated exclusively for charitable purposes.

Dedication and Distribution of Assets

Assets of an organization must be permanently dedicated to an exempt purpose. This means that should an organization dissolve, its assets must be distributed for an exempt purpose described in this chapter, or to the Federal Government or to a state or local government for a public purpose. If the assets could be distributed to members or private individuals or for any other purpose, the organizational test isn't met.

Dedication. To establish that your organization's assets will be permanently dedicated to an exempt purpose, the articles of organization should contain a provision

ensuring their distribution for an exempt purpose in the event of dissolution. Although reliance can be placed upon state law to establish permanent dedication of assets for exempt purposes, review of an application for exemption may be facilitated if the articles of organization include a provision ensuring permanent dedication of assets for exempt purposes.

Distribution. Rev. Proc. 82-2, 1982-1 C.B. 367, identifies the states and circumstances in which the IRS won't require an express provision for the distribution of assets upon dissolution in the articles of organization. The procedure also provides a sample of an acceptable dissolution provision for organizations required to have one.

If a named beneficiary is to be the distributee, it must be one that would qualify and would be exempt within the meaning of section 501(c) (3) at the time the dissolution takes place.

Since the named beneficiary at the time of dissolution may not be qualified, may not be in existence, or may be unwilling or unable to accept the assets of the dissolving organization, a provision should be made for distribution of the assets for one or more of the purposes specified in this chapter in the event of any such contingency.

Sample articles of organization. See sample articles of organization in the Appendix in the back of this publication.

Educational Organizations and Private Schools

If your organization wants to obtain recognition of exemption as an educational organization, you must submit complete information as to how your organization carries on or plans to carry on its educational activities, such as by conducting a school, by panels, discussions, lectures, forums, radio and television programs,

or through various cultural media such as museums, symphony orchestras, or art exhibits. In each instance, you must explain by whom and where these activities are or will be conducted and the amount of admission fees, if any. You must submit a copy of the pertinent contracts, agreements, publications, programs, etc.

If you are organized to conduct a school, you must submit full information regarding your tuition charges, number of faculty members, number of full-time and part-time students enrolled, courses of study and degrees conferred, together with a copy of your school catalog. See Form 1023, Schedule B and *Private Schools*, discussed later.

Educational Organizations

The term educational relates to:

1. The instruction or training of individuals for the purpose of

improving or developing their capabilities, or

2. The instruction of the public on subjects useful to individuals and beneficial to the community.

Advocacy of a position. Advocacy of a particular position or viewpoint may be educational if there is a sufficiently full and fair exposition of pertinent facts to permit an individual or the public to form an independent opinion or conclusion. The mere presentation of unsupported opinion isn't educational.

Method not educational. The method used by an organization to develop and present its views is a factor in determining if an organization qualifies as educational within the meaning of section 501(c)(3). The following factors may indicate that the method isn't educational.

1. The presentation of viewpoints unsupported by facts is a significant part of the organization's communications.
2. The facts that purport to support the viewpoint are distorted.
3. The organization's presentations make substantial use of inflammatory and disparaging terms and express conclusions more on the basis of emotion than of objective evaluations.
4. The approach used isn't aimed at developing an understanding on the part of the audience because it doesn't consider their background or training.

Exceptional circumstances, however, may exist where an organization's advocacy may be educational even if one or more of the factors listed above are present.

Qualifying organizations. The following types of organizations may qualify as educational:

1. An organization, such as a primary or secondary school, a college, or a professional or trade school, that has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled student body in attendance at a place where the educational activities are regularly carried on;
2. An organization whose activities consist of conducting public discussion groups, forums, panels, lectures, or other similar programs;
3. An organization that presents a course of instruction by correspondence or through the use of television or radio;
4. A museum, zoo, planetarium, symphony orchestra, or other similar organization;

5. A nonprofit children's day-care center;
and
6. A credit counseling organization.

College book stores, cafeterias, restaurants, etc. These and other on-campus organizations should submit information to show that they are controlled by and operated for the convenience of the faculty and student body or by whom they are controlled and whom they serve.

Alumni association. An alumni association should establish that it is organized to promote the welfare of the university with which it is affiliated, is subject to the control of the university as to its policies and destination of funds, and is operated as an integral part of the university or is otherwise organized to promote the welfare of the college or university.

If your association doesn't have these characteristics, it may still be exempt as a social club if it meets the requirements described in chapter 4, under 501(c)(7) - Social and Recreation Clubs.

Athletic organization. This type of organization must submit evidence that it is engaged in activities such as directing and controlling interscholastic athletic competitions, conducting tournaments, and prescribing eligibility rules for contestants. If it isn't so engaged, your organization may be exempt as a social club described in chapter 4. Raising funds to be used for travel and other activities to interview and persuade prospective students with outstanding athletic ability to attend a particular university doesn't show an exempt purpose. If your organization isn't exempt as an educational organization, see *Amateur Athletic Organizations*, later in this chapter.

Private Schools

Every private school filing an application for recognition of tax-exempt status must supply the IRS (on Schedule B, Form 1023) with the following information.

1. The racial composition of the student body, and of the faculty and administrative staff, as of the current academic year. (This information must also be projected, so far as may be feasible, for the next academic year.)
2. The amount of scholarship and loan funds, if any, awarded to students enrolled and the racial composition of students who have received the awards.
3. A list of the school's incorporators, founders, board members, and donors of land or buildings, whether individuals or organizations.

4. A statement indicating whether any of the persons described in item (3) above have an objective of maintaining segregated public or private school education at the time the application is filed and, if so, whether any of the individuals described in item (3) are officers or active members of those organizations at the time the application is filed.
5. The public school district and county in which the school is located.

How to determine racial composition. The racial composition of the student body, faculty, and administrative staff can be an estimate based on the best information readily available to the school, without requiring student applicants, students, faculty, or administrative staff to submit to the school information that the school otherwise doesn't require.

Nevertheless, a statement of the method by which the racial composition was determined must be supplied. The identity of individual students or members of the faculty and administrative staff shouldn't be included with this information.

A school that is a state or municipal instrumentality (see *Instrumentalities*, near the beginning of this chapter), whether or not it qualifies for exemption under section 501(c)(3), isn't considered to be a private school for purposes of the following discussion.

Racially Nondiscriminatory Policy

To qualify as an organization exempt from federal income tax, a private school must include a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy as to students and that it doesn't discriminate against applicants and students on the basis of race,

color, or national or ethnic origin. Also, the school must circulate information that clearly states the school's admission policies. A racially nondiscriminatory policy toward students means that the school admits the students of any race to all the rights, privileges, programs, and activities generally accorded or made available to students at that school and that the school doesn't discriminate on the basis of race in administering its educational policies, admission policies, scholarship and loan programs, and athletic and other school-administered programs.

The IRS considers discrimination on the basis of race to include discrimination on the basis of color or national or ethnic origin.

The existence of a racially discriminatory policy with respect to the employment of faculty and administrative staff is indicative of a racially discriminatory policy as to students.

Conversely, the absence of racial discrimination in the employment of faculty and administrative staff is indicative of a racially nondiscriminatory policy as to students.

A policy of a school that favors racial minority groups with respect to admissions, facilities and programs, and financial assistance isn't discrimination on the basis of race when the purpose and effect of this policy is to promote establishing and maintaining the school's nondiscriminatory policy.

A school that selects students on the basis of membership in a religious denomination or unit isn't discriminating if membership in the denomination or unit is open to all on a racially nondiscriminatory basis.

Policy statement. The school must include a statement of its racially nondiscriminatory policy in all its brochures and catalogs dealing with student admissions, programs, and scholarships.

Also, the school must include a reference to its racially nondiscriminatory policy in other written advertising that it uses to inform prospective students of its programs.

Publicity requirement. The school must make its racially nondiscriminatory policy known to all segments of the general community served by the school. Selective communication of a racially nondiscriminatory policy that a school provides solely to leaders of racial groups won't be considered an effective means of communication to make the policy known to all segments of the community. To satisfy this requirement, the school must use one of the following three methods.

Method one. The school can publish a notice of its racially nondiscriminatory policy in a newspaper of general circulation that serves all racial segments of the community.

Such publication must be repeated at least once annually during the period of the school's solicitation for students or, in the absence of a solicitation program, during the school's registration period. When more than one community is served by a school, the school can publish the notice in those newspapers that are reasonably likely to be read by all racial segments in the communities that the school serves.

If this method is used, the notice must meet the following printing requirements.

1. It must appear in a section of the newspaper likely to be read by prospective students and their families.
2. It must occupy at least 3 column inches.
3. It must have its title printed in at least 12 point bold face type.
4. It must have the remaining text printed in at least 8 point type.