

must ensure that its earnings do not inure to the benefit of any private shareholder or individual;  
 must not operate for the benefit of private interests such as those of its founder, the founder's family, its shareholders or persons controlled by such interests;  
 must not operate for the primary purpose of conducting a trade or business that is not related to its exempt purpose, such as a school's operation of a factory; and  
 may not have purposes or activities that are illegal or violate fundamental public policy.

**exempt purpose** -- To be tax exempt, an organization must have one or more *exempt purposes*, stated in its organizing document. Section 501(c)(3) of the IRC lists the following exempt purposes: charitable, educational, religious, scientific, literary, fostering national or international sports competition, preventing cruelty to children or animals, and testing for public safety.

**501(c)(3) Organizations**

The most common types of 501(c)(3) organizations are charitable, educational, and religious.

Charitable

**Charitable organizations conduct activities that promote:**  
 relief of the poor, the distressed, or the underprivileged  
 advancement of religion  
 advancement of education or science  
 erection or maintenance of public buildings, monuments, or works  
 lessening the burdens of government  
 lessening neighborhood tensions  
 eliminating prejudice and discrimination  
 defending human and civil rights secured by law  
 combating community deterioration and juvenile delinquency

Educational

**Educational organizations include:**  
 schools such as a primary or secondary school, a college, or a professional or trade school  
 organizations that conduct public discussion groups, forums, panels, lectures, or similar programs  
 organizations that present a course of instruction by means of correspondence or through the use of television or radio  
 museums, zoos, planetariums, symphony orchestras, or similar organizations  
 nonprofit day-care centers  
 youth sports organizations

Religious

The term *church* includes synagogues, temples, mosques, and similar types of organizations. Although the IRC excludes these organizations from the requirement to file an application for exemption, many churches voluntarily file applications for exemption. Such recognition by the IRS assures church leaders, members, and contributors that the church is tax exempt under section 501(c)(3) of the IRC and qualifies for related tax benefits. Other religious organizations that do not carry out the functions of a church, such as mission organizations, speakers' organizations, nondenominational ministries, ecumenical organizations, or faith-based social agencies, may qualify for exemption. These organizations must apply for exemption from the IRS. See Publication 1828, *Tax Guide for Churches and Religious Organizations*, for more details.

**Public Charities and Private Foundations**

Every organization that qualifies for tax-exempt status under section 501(c)(3) of the IRC is further classified as either a *public charity* or a *private foundation*. Under section 508(b) of the IRC, every organization is automatically classified as a private foundation unless it meets one of the exceptions listed in sections 508(c) or 509(a).

For some organizations, the primary distinction between a classification as a public charity or a private foundation is the organization's source of financial support. Generally, a public charity has a broad base of support while a private foundation has very limited sources of support. This classification is important because different tax rules apply to the operations of each. Deductibility of contributions to a private foundation is more limited than deductibility of contributions to a public charity. See Publication 526, *Charitable Contributions*, for more information on deductibility of contributions. In addition, private foundations are subject to excise taxes that are not imposed on public charities. For more information about the special tax rules that apply to private foundations, see Publication 4221-PF, *Compliance Guide for 501(c)(3) Private Foundations*; and the Life Cycle of a Private Foundation website on [www.irs.gov/eo](http://www.irs.gov/eo).

Organizations statutorily classified as public charities under section 509(a) of the IRC are:

- churches;
- schools;
- organizations that provide medical or hospital care (including the provision of medical education and in certain cases, medical research);