

Starting a 501(d) Community by Bucket

What is a 501(d) community? First of all, it is a nonprofit corporation and is subject to much of the same corporate law as other nonprofits. However, the tax situation for 501(d) groups is much different than that for a 501(c)3 nonprofit.

The 501(d) status was created for the Shakers or some similar religious group, and its defining element is that the group must have a "common treasury." In the FEC, this generally means the same thing as "income sharing"--all income earned by members must go into the community bank account. When it comes time to pay income tax, we add up the income of all members and the community, divide it by the number of members, and each member files their return paying tax on that amount.

How does one become a 501(d) community? Well, start by gathering a group of like-minded people and agreeing you'd like to have a common treasury. Then, fill out an application to the IRS including the following information:

Skyhouse Articles of Incorporation. This is probably the first step (legally) for any new group. Each state has its own application process to become a new corporation. In Missouri, it only cost us about \$25 to file. We were able to print the forms off Missouri's WWW server and fill them out. At this point, you should also use IRS Form SS-4 to apply for a Federal Employee Identification Number for your group. When you receive notice of the EIN assigned to you, include a copy of that notice in this 501(d) application.

Next, you'll need to write some bylaws. The FEC Systems and Structures packet helped us out a lot here. In many ways, we simply cribbed together Skyhouse bylaws from the bylaws of other communities (including Sandhill and the Women Defending Ourselves collective in California).

There are a couple of other supporting documents you'll need before you start writing our friends at the IRS. Create a balance sheet (assets/liabilities) and a report of receipts and expenditures for the period of existence of your organization, tabulated yearly if you've been in existence for at least a year. Ours were extremely simple since we were only three months old when we filed (so simple they're not reproduced here). You may also want to write a Statement of Spirituality to prove that you've got some good psychic underpinning for your common treasury and that it's not just a tax dodge. Don't worry, the IRS isn't judging the worth of your religion, just that your purposes aren't only to avoid taxation.

Finally, you're ready to apply. Dust off your official letter writing skills and write a formal exemption request to the IRS. You will want to create a separate document that explains the points raised in "Rev. Proc 72-5"--essentially, a list of things the IRS feels it needs to know about your group before it feels comfortable categorizing you as a 501(d) organization.

Almost there! Fill out IRS Form 8718, a request for a determination letter that you can use to prove you got 501(d) status with the state or (presumably) with the Feds as well. Include a check for \$465 assuming you have or expect to have average annual gross receipts of at least \$10,000 (the cost is less if you earn less than that, but if you earn less than that, you probably don't need to file taxes anyway). You put everything together nicely, make a copy for yourself, and mail it off to the local IRS Exempt Organizations office--the address is on Form 8718.

Good luck!