



A FIVE-MINUTE INTRODUCTION TO IRS GROUP EXEMPTIONS

1. What is a group exemption letter?

A group exemption letter represents the culmination of a process through which the IRS will recognize a group of organizations as tax exempt if they fall under the umbrella of a central organization. With a group exemption letter, the smaller subordinate organizations can save a lot of time and money by NOT having to apply for exempt status individually. In other words, an IRS group exemption letter has the same effect as an individual exemption letter except that it applies to more than one organization.

2. What types of organizations can qualify for group exemptions?

Exempt organizations that have or plan to have related, lower-level organizations or local chapters that are very similar to each other may apply for a group exemption.

3. What are central and subordinate organizations?

A “group” covered by a group exemption letter must have a “parent” or main organization, typically referred to as the central organization. The central organization generally supervises or controls many chapters, called subordinate organizations. The subordinate organizations typically have similar structures, purposes, and activities. As noted above, only the central organization must file Form 1023 or Form 1024.

Example: ABC is a national, fraternal organization exempt under Internal Revenue Code (“IRC”) section 501(c)(3). ABC has several state and hundreds of local chapters that have nearly identical articles of incorporation, by-laws, purposes, and activities. As the national organization, ABC is considered the central organization; the state and local chapters are subordinate organizations and are covered under ABC’s group exemption.

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4. What criteria must organizations meet to be included in a group exemption?

To qualify for a group exemption, the central organization and its subordinates must have a defined relationship. Subordinates must be: (i) affiliated with the central organization; (ii) subject to the central organization's general supervision or control; and (iii) exempt under the same paragraph of 501(c) of the Internal Revenue Code, though not necessarily the paragraph under which the central organization is exempt. Take a look at [Rev. Proc. 80-27, 1980-1 C.B. 677](#) for additional criteria.

5. Where does a central organization apply for exemption and submit a request for a group exemption?

A central organization sends its application for exemption, request for a group exemption, and required user fee, to:

Internal Revenue Service
P.O. Box 192
Covington, KY 41012-0192

or if using express mail or a delivery service, to:

Internal Revenue Service
201 West Rivercenter Blvd.
Attn: Extracting Stop 312
Covington, KY 41011

6. What must a request for a group exemption contain?

The central organization submits a letter to the IRS on behalf of itself and its subordinates. The letter includes:

- a. Information verifying the existence of the required relationship;
- b. A sample copy of a uniform governing instrument (such as a charter, trust indenture, articles of association, etc.) adopted by the subordinates;
- c. A detailed description of the purposes and activities of the subordinates including the sources of receipts and the nature of expenditures;
- d. An affirmation by a principal officer that, to the best of the officer's knowledge, the purposes and activities of the subordinates are as set forth in (b) and (c) above;
- e. A statement that each subordinate to be included in the group exemption letter has furnished written authorization to the central organization;

- f. A list of subordinates to be included in the group exemption letter to which the IRS has issued an outstanding ruling or determination letter relating to exemption;
- g. If the application for a group exemption letter involves IRC 501(c)(3), an affirmation to the effect that, to the best of the officer's knowledge and belief, no subordinate to be included in the group exemption letter is a private foundation as defined in IRC 509(a);
- h. For each subordinate that is a school claiming exemption under IRC 501(c)(3), the information required by Rev. Proc. 75-50, 1975-2 C.B. 834 and Rev. Rul. 71-447, 1971-2 C.B. 230; and
- i. A list of the names, mailing addresses (including zip code), actual addresses (if different), and employer identification numbers of subordinates to be included in the group exemption letter. A current directory of subordinates may be furnished in lieu of the list if it includes the required information and if the subordinates not to be included in the group exemption letter are identified.

These rules for applying for a group exemption are set forth in Rev. Proc. 80-27, 1980-1 C.B. 677.

7. How does the group exemption process work?

Upon receipt of a Form 1023 or 1024 and a request for group exemption, the IRS first determines whether the central organization and the existing subordinates qualify for tax exemption. Once the IRS grants the exemption, the central organization is responsible for: (i) ensuring that its current subordinates continue to qualify to be exempt; (ii) verifying that any new subordinates qualify to be exempt; and (iii) updating the IRS on an annual basis of new subordinates, subordinates no longer to be included, and subordinates that have changed their names or addresses.

8. What is included in an annual update?

Annual updates contain the following information:

- a. Information about changes in purposes, character, or method of operation of subordinates included in the group exemption letter.
- b. A breakdown or list of the following information:
 - 1. subordinates that have changed their names or addresses during the year;
 - 2. subordinates no longer to be included in the group exemption letter because they have ceased to exist, disaffiliated, or withdrawn their authorization to the central organization; and

3. subordinates to be added to the group exemption letter because they are newly organized or affiliated or have newly authorized the central organization to include them.

Each list must show the names, mailing address (including zip codes), actual address if different, and employer identification numbers of the affected subordinates.

An annotated directory of subordinates will not be accepted for this purpose. If none of these changes occurred, the central organization must submit a statement to that effect.

- c. The same information about new subordinates that was required in the initial request. If a new subordinate does not differ in any material respects from the subordinates included in the original request, however, a statement to this effect may be submitted in lieu of detailed information.

These annual updates are mailed to:

Ogden Service Center
Mail Stop 6271
Ogden, UT 84404-4749.

Six months before the update is due, the IRS sends the central organization a list of currently listed subordinates, typically referred to as a List of Parent and Subsidiary Accounts.

9. What are the filing requirements for organizations that hold group exemptions?

A group exemption letter does not change the filing requirements for exempt organizations. The central organization and the subordinates must file Forms 990 (or 990-EZ or 990-N), unless they meet a filing exception. If it is required to file an annual return, the central organization must file its own separate return but may also file a group return on behalf of some or all of its subordinates. If the central organization files on behalf of some of its subordinates, rather than all, it must attach a list of the subordinates included in the return.

10. How do I verify that an organization is included as a subordinate in a group exemption ruling?

The central organization that holds a group exemption (rather than the IRS) determines which organizations are included as subordinates under its group exemption ruling. Therefore, you can verify that an organization is a subordinate under a group exemption ruling by consulting the official subordinate listing approved by the central organization or by contacting the central organization directly. You may use either method to verify that an organization is a subordinate under a group exemption ruling.