A FairTax℠ White Paper

FairTax treatment of churches and nonprofit organizations
(SEC. 706. NOT-FOR-PROFIT ORGANIZATIONS)

There is no definition of church in the FairTax legislation. Churches or houses of worship come under the definition of not-for-profit organizations.

In order to receive advantageous tax treatment, a church must be a "qualified not-for-profit organization" – an organization that is organized and operated exclusively for *religious*, charitable, scientific, testing for public safety, literary, or educational purposes; as a civic league or social welfare organization; as a labor, agricultural, or horticultural organization; as a chamber of commerce, business league, or trade association; or as a fraternal beneficiary society, order, or association. And no part of the net earnings of said not-for-profit organization shall serve to the benefit of any private shareholder or individual.

Religious organizations that meet the above criteria are issued a "qualification certificate" upon application to the state sales tax administering authority (on a form prescribed by the U.S. Secretary of the Treasury).

The FairTax does not treat tithes, dues, contributions, and similar payments to religious organizations or qualified not-for-profit organizations as payments for taxable property or services subject to tax. Individuals make such payments or contributions to religious or other not-for-profit organizations tax free.

If churches or nonprofits provide taxable services at no charge (they run a soup kitchen for the poor, for example), these services are not subject to tax.

Taxable property and services purchased by a qualified not-for-profit organization "for business purposes" are not taxable. The organization must present its qualification certificate to the seller when making a purchase in order for the sale to be tax exempt. If a religious organization or qualified not-for-profit provides taxable property or services in connection with contributions, dues or other payments to the organization, then it is required to treat the provision of the taxable property or services as a taxable purchase at the fair market value of the taxable property or services.

In other words, purchases for business purposes are tax exempt and sales to consumers are taxable, e.g., a church selling Bibles. The church pays no tax when it purchases the Bibles but it must collect sales tax when it sells the Bibles. The church is likewise responsible for remitting the tax to the state sales tax authority.

As the FairTax exempts savings and investment, there is no tax on interest earnings on endowments – assets, funds, or property donated to a not-for-profit organization as a source of income.

Since the FairTax repeals all income/payroll taxes, there are no other federal reporting requirements for not-for-profit organizations. It also repeals the prohibitions on political activity by churches and not-for-profit organizations, as detailed in the next section of this document.

Income Tax Treatment of Churches

Sec. 501(c)(3) Internal Revenue Code

Under the Internal Revenue Code sec. 501(c)(3), qualified organizations are exempt from federal income tax. Charities, educational institutions, and religious organizations, including churches, are among those that are covered under this section. To qualify for and maintain tax-exempt status under sec. 501, an organization must be organized an operated exclusively for its tax-exempt purpose.

While many charities speak out on public issues as an integral part of carrying on their tax-exempt function, the IRC prohibits sec. 501(c)(3) organizations from the following types of political activities:

- Directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office.
- Making contributions to political campaign funds.
- Making public statements (verbal or written) in favor of or in opposition to any candidate for public office.
- Engaging in activities that may be beneficial for or detrimental to any particular candidate. These activities may constitute intervention, even if they do not expressly call for the election or defeat of a particular candidate, if the activity contains reasonably overt communication that the organization supports or opposes a particular candidate.

Violation of this prohibition may result in denial or revocation of tax-exempt status for the sec. 501(3)(c) organization and the imposition of certain excise taxes on the amount of money spent on the prohibited activity.

What is the FairTax Plan?
The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)?
FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

TAW/km 2-05
(AFFT Documents\Papers on a specific subject\FairTax treatment of churches and nonprofit organizations)