

**SUPPORTING STATEMENT
(Form 1023)**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Unless specifically exempted by a provision in the Internal Revenue Code, all organizations and individuals are subject to Federal income tax. Certain organizations may be exempt from Federal income taxes under section 501(a) of the Code if they are described in section 501(c)(3) and meet certain other conditions set out in the Code.

Section 508(a) of the Code requires organizations that are broadly classified as charitable to notify the Internal Revenue Service (authority delegated by the Secretary of the Treasury) that they intend to apply for exempt status under section 501(c)(3). Section 1.501(a)-1(a) of the Income Tax Regulations requires these organizations to apply for exempt status. Section 509(a) of the Code requires them to provide information on their private foundation status or show why they are not private foundations. Form 1023 has been developed to serve all these requirements.

2. USE OF DATA

Form 1023 provides the IRS with information to determine the applicant's exempt status and private foundation status. This includes:

- (a) The date the organization was created. This date must be known under section 508 to qualify for retroactive exempt status.
- (b) Whether the applicant's organizing documents contain certain provisions relating to Chapter 42 of the Code.
- (c) Whether the applicant is organized and operated for exempt purposes.
- (d) Whether the applicant is privately or publicly supported and controlled. The IRS must know the sources of support for the applicant and who operates the organization to determine its private foundation status.
- (e) Whether the applicant's organizing documents provide for disposition of its assets to one or more approved charitable organizations in the event of dissolution.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

IRS Publication, Regulations, Notices, and Letters are to be electronically enabled on as practicable basis in accordance with the IRS Reform and Restructuring Act of 1998.

4. EFFORTS TO IDENTIFY DUPLICATION

We have attempted to eliminate duplication within the agency wherever possible.

5. **METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES**

Not applicable.

6. **CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES**

Not applicable.

7. **SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)**

Not applicable.

8. **CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS**

In an effort to expand the opportunity for the public to comment on information collection activities, and to allow for greater public participation of the public in the Paperwork Reduction Act process, the Department of the Treasury has created the website www.PRAComment.gov. This website allows the public to provide feedback on information collection activities that are covered by the PRA. As a pilot project, IRS Form 1023 was selected to be the first collection to be included on this website. In response, Treasury received 21 comments through the website, and 1 comment in response to the Federal Register Notice (**August 23, 2010 75 F. R. 51879**) on a variety of areas regarding the form, including the form's complexity, difficulty, burden estimate, and the need for a new "Cyber Assistant" tool to aid the respondent in the use of the form.

Although IRS is not revising the application at this time we have carefully reviewed the comments provided and will incorporate them as appropriate when Form 1023 is revised.

We take seriously the granting of tax exempt status to organizations. We ask a lot of questions on the application to insure that only organizations organized and operated exclusively for one or more exempt purposes are granted exempt status. The answers must contain enough detail about the organization's past, present and future activities to prove that it qualifies as exempt. We also want to insure that the organization is not organized or operated for the benefit of private interests and that no part of the 501(c)(3) organization's earnings inure to the benefit of any private shareholder or individual. Because of disclosure rules, we cannot use other federal tax returns filed with the Internal Revenue Service to gather the financial data in Part IX.

Regardless of an organization’s size, we need to determine the same information before we grant tax exempt status. Therefore we cannot have a shortened version for smaller organizations or for organizations that may have recently lost their tax exempt status due to not filing for three years.

IRS is taking all comments into account as they consider next steps and future form revisions. However, the only immediate revision to the ICR has been to increase the burden estimate to reflect the view that the current estimate is too low. All comments are included as attachments.

9. **EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS**

Not applicable.

10. **ASSURANCE OF CONFIDENTIALITY OF RESPONSES**

Generally, tax returns and tax return information are confidential as required by 26 USC 6103.

11. **JUSTIFICATION OF SENSITIVE QUESTIONS**

The only items of a sensitive nature the organizations are asked to furnish are some general information requirements asked of all organizations on their activities and operations. For organizations claiming tax-exempt status as churches or religious organizations, the information required to be submitted would pertain to their religious beliefs and practices. IRS needs this information to determine whether the organization qualifies for tax-exempt status.

12. **ESTIMATED BURDEN OF INFORMATION COLLECTION**

Form	<u>Number of Responses</u>	<u>Time per Response</u>	<u>Total Hours</u>
1023	29,409	131.15	3,857,117
1023 Sch. A	588	10.17	6,122
1023 Sch. B	588	15.48	9,385
1023 Sch. C	588	11.34	6,957
1023 Sch. D	588	10.90	6,698
1023 Sch. E	294	17.92	5,410
1023 Sch. F	588	11.59	7,098
1023 Sch. G	147	6.77	1,031
1023 Sch. H	<u>588</u>	8.96	<u>1,551</u>
	33,378		4,005,860

Estimates of the annualized cost to respondents for the hour burdens shown are not

available.

The following regulations impose no additional burden. Please continue to assign OMB number 1545-0056 to these regulations.

1.501(a)-1	301.6104(a)-5
1.501(c)(3)-1	301.6104(a)-6
1.508-1	

13. **ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS**

As suggested by OMB, our **Federal Register Notice dated August 23, 2010 (75 F. R. 51879)**, requested public comments on estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information. One response from a taxpayer was received, however it did not address burden on this subject. As a result, estimates of the cost burdens are not available at this time.

14. **ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT**

After consultation with various functions within the Service, we have determined that the cost of developing, printing, processing, distribution, and overhead for Form 1023 is \$258,938.

15. **REASONS FOR CHANGE IN BURDEN**

The change in the burden reflects a rough increase in the burden estimation to reflect the view that the previous time per response burden was too low.

16. **PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION**

Not applicable.

17. **REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE**

See attachment.

18. **EXCEPTIONS TO THE CERTIFICATION STATEMENT ON OMB FORM 83-I**

Not applicable.

Note: The following paragraph applies to all of the collections of information in this submission:

An agency may not conduct or sponsor, and a person is not required to respond to, a

collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.