



CHURCH TAX EXEMPT STATUS & INCORPORATION

As part of our mission to equip and assist churches, we track issues common to congregations around the state. The most significant current legal topic relates to tax-exempt status. Specifically, churches seeking to confirm their tax exempt status or any legal steps that may be required. This issue is most often raised by churches who may have changed denominational relationships in recent years.

This summary includes what should be positive news for churches regarding tax exempt status regardless of denominational affiliation. In addition, the summary addresses a closely related topic, church incorporation. This document is intended as a practical overview, and additional support is available (*see below*).

FAQ #1: Should our church be incorporated?

- While church incorporation is not legally required, it is a best practice. Most partner churches of CBFNC are organized as nonprofit corporations under NC law. Incorporation confirms nonprofit status under state law and also provides churches with structure and protection, including liability.
- If your church is not certain about its incorporation status, confirmation can easily be determined through the NC Secretary of State's online database ([link](#)). If the church determines that it needs to file for formal status, that process is neither complex or costly.

FAQ #2: Is our church tax exempt?

- Yes! Under longstanding federal rules, a church meets the requirements of section 501(c)(3) of the Internal Revenue Code such that it is automatically considered tax exempt and is not required to apply for and obtain formal recognition of exempt status from the IRS. For more information, [this section from IRS.gov](#) outlines and affirms the automatic status.
- Churches are similarly exempt under state law, with no further action required.

FAQ #3: If our church is automatically tax exempt and does not require an IRS application, do we also need to confirm IRS 501(c)(3) status through a denominational partner?

- No. This is an area of long-term confusion for many churches. While it is true that a parent/umbrella nonprofit organization can apply to the IRS and receive a Group Exemption Letter that confirms tax exempt status of the parent's affiliated entities, this approach is not required for churches. Even if your church has/had a copy of a Group Exemption Letter from a state or national organization, the letter is/was not required to confirm the church's tax exempt status. The law has not changed, but communication from different denominational entities has confused the issue over time.
- Acknowledging the above, we realize that on certain occasions a church may wish to have support from a denominational partner that is a formally approved (non-automatic) 501(c)(3) entity. *Example:* A church is receiving or applying for a grant from a missions foundation, and the organization asks for a formal letter confirming 501(c)(3) status. In our view, the church can (a) confirm its status independently as a tax exempt entity, and, if helpful, (b) use a letter from CBFNC confirming the church's status on its own and as an active, cooperating ministry partner of CBFNC.
- For a customized partner letter of support from CBFNC, contact Jason Cogdill (*see below*).

Acknowledgment of Prior Guidance from CBFNC: In 2007, one of CBFNC's long-time lay leaders, Don Horton Sr. of Zebulon Baptist Church, published written guidance for partner churches regarding these issues. If your church consulted CBFNC around that time or otherwise relied on that information, know that the guidance remains accurate in 2023 as it was at the time of publication. We acknowledge Don's leadership on this topic, which is an example of the quality of leadership that CBFNC lay leaders and staff have long provided and upon which we seek to build and grow.

This summary was drafted by Jason Cogdill, an attorney based in Winston-Salem who serves as Legal Resource Partner for CBF North Carolina and its partner churches, lay leaders and ministers. For more details or assistance on issues of tax exempt status, incorporation or otherwise, email Legal@cbfnc.org.