



DEBUNKING THE TOP 5 MYTHS ABOUT CHURCH 501(C)(3) STATUS

Churches have always been exempt from federal income taxes. But through the years, several misconceptions have arisen concerning their tax exempt status. Here are the five myths we hear most often...with the facts.

1. Churches aren't subject to section 501(c)(3) of the federal tax code.

The truth is *all churches are subject to section 501(c)(3) of the federal tax code* whether they apply for recognition as a 501(c)(3) organization or not. Churches are not required to apply for recognition to the IRS, but that does not remove them from the requirements of the tax code. For an in depth examination of this issue, [read this article](#).

2. Churches that don't apply to the IRS for 501(c)(3) recognition are free from government regulation.

The truth is *all churches must abide by section 501(c)(3) of the tax code* whether they have applied to the IRS or not. This issue has been litigated [and federal court holdings are clear that churches are subject to section 501\(c\)\(3\)](#). The tax code comes from the assumption that all income is taxable unless it is exempted by the code. Thus, even if a church does not apply to the federal government for tax exemption, it is still considered subject to the federal tax code. The good news is that churches are automatically exempt from income taxes by section 501(c)(3), but this also means churches are subject to the requirements of section 501(c)(3).

3. Churches that do not incorporate are not subject to regulation by the IRS.

Some mistakenly believe that if their church never incorporated, then the IRS (and any other state or federal government) cannot regulate or control their church. A different myth similar to this is that if a church un-incorporates, creates a "corporation sole" or some other unique corporate status, that it will remove itself from government control.

The truth is *a church's corporate status has no effect on its regulation by the IRS under the income tax code*. The IRS regulates both incorporated and unincorporated organizations. Just because a church is not incorporated does not mean it gets a free pass from all laws and regulations under the federal tax code. The same is true with other federal, state, and local laws and regulations.

4. Churches that incorporate or apply to the IRS for tax exemption give up their freedom.

The truth is *churches do not give up their constitutional rights by incorporating or applying for a 501(c)(3) letter from the IRS*. Because churches make no "exchange" for a 501(c)(3) letter or to incorporate, they retain their constitutional rights no matter what corporate form or tax letters they receive from the government.



That is not to say that the federal government never overreaches when it comes to churches. The Johnson Amendment in section 501(c)(3) of the tax code restricts what a pastor can preach from the pulpit on the issue of candidates in an election. That is why Alliance Defending Freedom launched [Pulpit Freedom Sunday](#), to restore a pastor's right to speak freely from the pulpit on all matters without government censorship. Every church is subject to the Johnson Amendment regardless of whether they incorporate, seek recognition as a church, or attempt to take on a unique corporate form to forego government control.

5. Churches should fear the IRS as a powerful agency that can wreak havoc on them.

Many churches fear the IRS because they have heard stories of abuses of power, or perhaps they know someone who went through a particularly painful audit.

The truth is *the IRS is subject to legal restrictions that curtail its power over churches.* For instance, Congress passed the [Church Audit Procedures Act](#) in 1984 that requires the IRS to abide by significant restrictions when deciding to audit a church and how to conduct the audit. The IRS is also constrained by the unique status churches have under the federal tax code. Churches are considered automatically exempt from income taxes, and this unique status provides good protection for churches.

While government can abuse its powers, churches should not fear the IRS. A healthy mutual respect is appropriate. As Romans 13:3 states, "Rulers are not a terror to good conduct, but to bad. Would you have no fear of the one who is in authority? Then do what is good and you will receive his approval, for he is God's servant for your good." If your church does "what is good," then it has no reason to fear the IRS. This is especially true because Alliance Defending Freedom stands ready to defend your church should the need arise.

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