



Income/Franchise Tax Exemption

501(c)(3) status exempts organizations from paying federal income tax but there are a variety of other taxes nonprofit organizations may need to be concerned about. These include unemployment, sales, income/franchise, payroll, and a variety of other tax types. These instructions are for applying for state income/franchise tax exemption. Income tax is a tax on an organization's income. Franchise tax is a fee for the privilege of doing business in a particular state. States generally require one or the other, but not both. Most states allow 501(c)(3) organizations to obtain an exemption from paying these taxes. However, the exemption often requires you to submit an application.

These instructions will help you through the process of applying for state income/franchise tax exemption. Some states require only a copy of the IRS determination letter, but in most cases, the following information is needed to apply.

The most common information needed is:

- EIN (Employer Identification Number)
- Approved Articles of Incorporation
- IRS determination letter
- Financial statement or proposed budget
- Bylaws
- Most recent 990 filing

Step 1. Find the correct website.

To begin, run a search for “[state] nonprofit income tax exemption” in your preferred search engine. You may need to change the wording (change “income” to “franchise”) to find the appropriate site.

Practice tip: In some states, income tax exemption is automatic for 501(c)(3) organizations. You can still use these instructions to determine if this applies to you. Some states may have an FAQ section that answers this. The best source of information is always to contact the state directly.

Step 2. Determine the submission method and frequency.

Different states may have different methods for submission. Some states have an application, some require organizations to submit various documents with a letter, and others require an annual filing like the 990N, 990EZ, or 990.



Step 3. Proceed through the form.

Answer all questions completely and honestly.



Step 4. Attach all required documents.

Ensure all required attachments are submitted with the application. States tend to be very particular about tax exemptions as taxes are additional revenue for the state.



Step 5. Submit the application.

Refer to the application or the application instructions for the correct submission method.

Congratulations! You have completed the income/franchise tax exemption!

Disclaimer: This guide is for general information and is not intended to provide legal or accounting advice specific to your organization. If you or your organization need legal or accounting advice, please engage a licensed professional by written agreement and have them review your organization's situation in detail.



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