

IRS 509(a) /170(b) Public Charity/ Private Foundation Ruling

WHAT IS A 509(A) RULING?

The Internal Revenue Service issues a 509(a) ruling to every organization with a 501(c)(3) tax-exempt ruling. Section 509(a) of the Internal Revenue Code, which includes references to Section 170(b), is called both a public charity ruling and a private foundation ruling. While the 501(c)(3) ruling designates an organization's tax-exempt status, the 509(a) ruling further categorizes the organization as either a public charity or a private foundation. This designation is important to a potential grantor because it indicates whether the granting organization will be required to exercise expenditure responsibility for the organization's grant.

BUT WE'RE A 501(C)(3), NOT A 509(A) ORGANIZATION

A common misconception is that a non-profit organization is issued either a 501(c)(3) or a 509(a) ruling. However, every 501(c)(3) organization is categorized as either a private foundation or a public charity. Section 509(a) (also referred to as Section 170(b)) of the Internal Revenue Code designates a 501(c)(3) organization's specific public charity/private foundation status, which is determined by the nature of the organization or level of its financial support from the general public or governmental units.

WHAT IS THE DIFFERENCE BETWEEN 509(A)(1), 509(A)(2), AND 509(A)(3)?

Organizations described under Section 509(a)(1) and 509(a)(2) include churches, educational organizations, hospitals and medical research organizations, endowment funds supporting certain colleges and universities, governmental units, and publicly supported organizations. Organizations described in Section 509(a)(3) include organizations that carry out their exempt purposes by supporting other exempt organizations. The Murdock Trust makes grants to organizations described in Section 509(a)(1) and 509(a)(2), but not 509(a)(3) because of auditing and reporting that is required (called expenditure responsibility).



For a detailed explanation on IRC Section 509(a), please visit www.irs.gov, search for Section 501(c)(3) Organizations, and see the section titled Private Foundations and Public Charities.

WHERE CAN I FIND MY 509(A) STATUS?

Most often, an organization's 509(a)/170(b) status is included in the IRS 501(c)(3) determination letter. Every letter is slightly different depending on the year issued, but the 509(a) ruling can normally be found in the body of the letter or in the heading. Some organizations (especially older ones) will have a separate 509(a) ruling letter. If in the body of the letter, the 509(a) ruling is generally in the second or third paragraph; at times, it may simply be referred to as section 170, and in other instances, the complete section of code will be listed. If in the header, the ruling will usually be in the top right-hand portion of the letter under a heading titled "Public Charity Status" and may be listed as 509(a), 170(b), or both. If your 509(a) ruling is not found on your IRS determination letter or a separate 509(a) ruling letter, you will need to request written proof of your public charity/private foundation status from the IRS.

CERTIFYING YOUR 509(A) STATUS

The Murdock Trust requires a cover letter from the Chief Executive Officer certifying the organization's IRS 501(c)(3) tax exempt ruling and the 509(a) or 170(b) public charity ruling and explicitly stating that no modifications are planned or pending to these statuses. When writing this letter, please refer specifically to both rulings.