

ILLINOIS SALES TAX EXEMPTION FOR NOT- FOR-PROFIT CHARITABLE ORGANIZATIONS

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CEDLP coordinates pro bono legal
services and education for community-
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small business entrepreneurs who meet
its eligibility requirements. Visit
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This fact sheet can help determine if your
organization may be entitled to an exemption from
Illinois sales tax and how Illinois sales tax
exemption works. This information can help you
through the process. However assistance also is
available from the Community Economic
Development Law Project (CEDLP).

An organization with sales tax exemption receives
an "E:" number but obtaining an "E"-number is not
guaranteed, no matter how worthy your
organization may be.

This fact sheet only applies to charitable not for
profits. If your organization is an educational,
religious, arts or cultural organization consult the
CEDLP fact sheets for those specific organizations
at www.clccrul.org/publications.

GENERAL INFORMATION

The following are answers to some of the basic
questions about how the application process
works and what an exemption can do for your
organization.

If the organization is already exempt from paying federal income tax, is the organization required to pay Illinois sales tax?

Yes. An exemption from federal income
tax does not mean the organization is
exempt from Illinois sales tax. An
organization must have an exemption
identification number, also known as an
"E"-number, from the Illinois Department
of Revenue to be exempt from sales tax.

What benefits does the "E"-number provide?

- Purchases by the organization are exempt
from Illinois sale tax. The organization
must give to its suppliers a copy of the
Department of Revenue letter providing
the "E"-number in order to obtain the
benefit of the exemption.
- Sales made by the organization are still
taxable, except in the following situations
(organizations must have an "E"-number
to qualify for these exceptions)
 - Sales to members primarily for the
purposes of the organization (for
example, sales of robes to choir

- members or sales of uniforms to Boy Scouts).
- Sales of food or beverages at occasional dinners, socials and other similar events are not taxable if those events are not held more than twice a year.
- Other sales when the organization is not competing with taxable business establishments. Selling is noncompetitive when:
 - The sales are made by members of the organization;
 - All the sales proceeds go to the organization or to charity;
 - The sales are not regularly made, but rather happen only annually or a few times during the year (for example, greeting cards sold for the holidays); and
 - The motive of most buyers is to make a gift to the organization or to charity.

REQUIREMENTS FOR CHARITABLE ORGANIZATIONS

What must the charitable organization prove to the Department of Revenue in order to be eligible for an Illinois Sales Tax Exemption?

The organization must show, among other things, that:

- The organization has no stock or shareholders;
- The organization earns no profit, but instead gets the majority of its operating funds from public and private charity¹;
- The organization provides no gain or profit to any person connected with it. All

¹ Organizations that are not financed primarily from “public and private charity,” including potentially those organizations that receive a large amount of government funding that is not considered “charitable” by the Department of Revenue, may have more difficulty obtaining an exemption.

of the organization’s funds must be used for its mission;

- The organization offers its benefits to everyone who needs and applies for them; and
- There are no obstacles in the way of those who need the services offered by the organization. For example, residency requirements and membership fees may be obstacles in the way of those who need your organization’s services.

APPLICATION PROCESS

How does an organization apply for an Illinois Sales Tax Exemption?

There is no specific application. Instead, you must send a letter describing why you believe that your organization is exempt along with supporting documents.

The letter must include the following documents:

- A description of your organization, including how it works and what it does, and why the organization meets the requirements for a sales tax exemption;
- A copy of your organization’s articles of incorporation or a copy of the organization’s constitution;
- A copy of your organization’s by-laws. It might be helpful if the bylaws include a provision for fee waivers if your organization charges a fee and the waiver policy is not documented elsewhere;
- A copy of the letter from the Internal Revenue Service granting your organization an exemption from federal income taxes under Internal Revenue Code Section 501(c)(3). A charitable organization that is not an arts or cultural organization is not required to have 501(c)(3) status to obtain Illinois sales tax exemption; however, if your organization is exempt from federal income taxes, include this information in your application because the Illinois Department of Revenue considers it relevant;

- If your organization is not exempt from federal income tax, the CEDLP may be able to help your organization apply for a federal income tax exemption;
- A copy of your organization's most recent financial statement. It is important to show how your organization is funded. Funding from grants and other charities (for example, private fundraising activities) is better than funding from fees. If the financial statement does not include information on the sources of funding, you should include that information some other way;
- A copy of brochures or other printed materials explaining what your organization does and how it works. For example, newspaper clippings, or print outs from a website; and
- If available, a document showing that your organization's benefits are available to everyone. This could be a statement on a membership brochure that the organization will waive its fees for those that cannot afford to pay or a non-discrimination policy.

Address the letter to:

**Illinois Department of Revenue
Office of Local Government Services
3-520
101 West Jefferson Street
Springfield, IL 62702**

It is important that you provide as much information as possible to the Department in your initial letter. If the application is denied due to insufficient or incomplete information, the Department's decision is difficult to overturn at an administrative hearing.

What happens after you submit your request?

- If the Department of Revenue grants your exemption request, you will receive a letter providing you with an "E"-number. You will need to provide copies of this letter to suppliers when claiming the exemption on purchases.

- If your request is denied, you will have the right to appeal the decision. The denial letter will explain these rights to you.

If you do need to appeal, legal assistance is very important at the hearing because the Department's decision is difficult to overturn. Many lawyers will provide legal assistance to non-profit organizations on a pro bono basis. For more information contact the Community Economic Development Law Project.

USING THE E-NUMBER

How can an organization use its "E"-number to make exempt purchases or sales?

- Exempt purchases and sales may only be made by properly authorized members of the organization on behalf of the organization. The "E"-number belongs to the organization.
- Purchases and sales must be for the benefit of the organization. Members of the organization may not purchase or sell anything for their own purposes.

What happens if someone misuses the "E"-number?

- The organization could lose its exemption from Illinois sales and use taxes.
- The individual misusing the "E"-number could be liable for unpaid Illinois sales and use taxes as well as interest and penalties.
- In some circumstances, criminal penalties may also apply.

How may an organization obtain more information or help in applying for an Illinois sales tax exemption?

Please contact CEDLP at:
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Chicago, IL 60602
312/939-3638 (Voice)
312/630-1127 (Fax)
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