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 501(c)(3) organization. Section 509(a) of the Internal Revenue Code (also references Section 170(b)), is called a public charity ruling or 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. For a detailed explanation on IRC Section 509(a), visit www.irs.gov, and look under Charities and Nonprofits, Private Foundations.

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 public charity/private foundation status, which is determined by the nature of the organization or types of financial support it receives.

WHAT IS THE DIFFERENCE BETWEEN 509(A)(1), 509(A)(2), AND 509(A)(3)?
Organizations described in Section 509(a)(1) and 509(a)(2) include churches, educational organizations, hospitals, medical research organizations, endowment funds supporting certain colleges/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 509(a)(1) and 509(a)(2) organizations, but not 509(a)(3) because of auditing and reporting requirements.

WHERE CAN I FIND MY 509(A) STATUS?
The 509(a)/170(b) status is typically in the IRS 501(c)(3) determination letter in the body of the letter or in the heading. Some organizations may have a separate 509(a) ruling letter. The 509(a) ruling is generally in the second or third paragraph, sometimes simply referred to as section 170. Alternately it may be in the top right-hand header under “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 verification in the grants portal from the head of the organization that the organization’s IRS 501(c)(3) tax-exempt ruling and the 509(a) or 170(b) public charity ruling are current and that no modifications are planned or pending to these statuses.