

## PREFACE

Exempt Organizations (EO) is dedicated to fulfilling the IRS mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness. Customer Education & Outreach (CE&O) works closely with Exempt Organizations staff to accomplish this by:

- Developing tailored education programs for customer categories
- Coordinating the development, revision and design of forms, publications and other non-speaker outreach activities
- Making standardized educational materials available for outreach efforts
- Establishing a way for customers to be heard

This workshop and our materials are part of a customized program for representatives of small and medium-sized exempt organizations. We hope that this text helps you become more familiar with tax laws governing exempt organizations and understand how compliance with these laws will strengthen the organization(s) you represent.

The material in this book is for educational use only and may not be cited as precedent.

*Lois G. Lerner*

Lois G. Lerner  
Director, Exempt Organizations

# CHAPTER 3

## JEOPARDIZING 501(c)(3) STATUS

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### **Jeopardizing Tax-Exempt Status**

A 501(c)(3) organization must engage in activities that accomplish exempt purposes or it jeopardizes its tax-exempt status and its eligibility to receive tax-deductible contributions.

Section 501(c)(3) organizations may not be used for the private benefit of any individual, nor may their earnings inure to the benefit of insiders. Moreover, a 501(c)(3) organization may only engage in legislative activities to a limited extent, and is forbidden to engage in political activities. An organization will also lose its exempt status under section 501(c)(3) if it operates for the primary purpose of carrying on an unrelated trade or business, which will be discussed in detail in Chapter 4.

Finally, an organization must meet its reporting obligations by filing Form 990, *Return of Organization Exempt From Income Tax*, Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, or Form 990-N, (*e-Postcard*), annually. Failure to comply could result in loss of exempt status. See Chapter 8 for detailed information on this requirement.

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### **Private Benefit**

An organization must serve a public interest to qualify for exemption under section 501(c)(3). If the organization serves public and private interests, the private benefit must be incidental to the public benefit.

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### **Important Facts**

### **New Ideas**

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Inurement**

Section 501(c)(3) of the Code states that no part of an organization's net earnings may inure to the benefit of a private shareholder or individual. This means the organization may not permit the use or distribution of its assets other than as reasonable compensation for goods or services actually furnished or in arm's length transactions.

Inurement generally refers to benefits conferred on insiders such as officers, directors and key employees. Examples of prohibited inurement include the payment of dividends or unreasonable compensation and the transfer of property for less than fair market value.

The prohibition against inurement to insiders is absolute; therefore, any amount of inurement is grounds for loss of tax-exempt status. In addition, the insider involved may be subject to excise tax. Note that prohibited inurement does not include reasonable payments for services rendered, payments that further tax-exempt purposes, or payments made for the fair market value of real or personal property.

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### **Inurement: Excess Benefit Transactions**

The IRS may impose an excise tax on a person who benefits from an excess benefit transaction as well as any organization manager who knowingly participates in the transaction. (A disqualified person is any person who is or was in a position to exercise substantial influence over the affairs of the organization.)

An excess benefit transaction is any transaction between a section 501(c)(3) or (c)(4) organization and a disqualified person in which the economic benefit is greater than the value of the consideration provided for the benefit (such as a non-fair market value transaction or unreasonable compensation for services).

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Preventing Private Benefit and Inurement: Internal Controls**

Adopting and implementing internal controls may help exempt organizations prevent private benefit and inurement, and thus help protect an organization's tax-exempt status. An internal control system may include some or all of the following elements:

- Segregating financial duties
  - Requiring second signatures on large checks
  - Tracking inventory
  - Conducting internal audits (*e.g.*, formal review of an organization's activities to ensure that proper policies are in place to implement internal controls)
  - Recordkeeping (see Chapter 7)
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### **Preventing Private Benefit and Inurement: Conflict of Interest Policy**

Adopting a conflict of interest policy may also help prevent inurement. A conflict of interest policy may include the following elements:

- Procedures for disclosure by persons having a financial interest
- Procedures for determining whether the financial interest of a person may result in a conflict of interest
- Procedures for addressing the conflict of interest after determining that it exists
- Procedures for adequate recordkeeping of actions taken
- Procedures ensuring that the policy is distributed to all trustees, principal officers and other persons in authority

An example of a conflict of interest policy can be found at the end of this chapter in Exhibit C.

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### **Lobbying and Political Activities**

A section 501(c)(3) organization may conduct a limited amount of lobbying activity but is prohibited from intervening in any political campaign activities.

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Lobbying Activity**

A 501(c)(3) organization may conduct lobbying activities provided they are insubstantial in relation to their exempt purpose activities. Lobbying is defined as an attempt to influence legislation.

Legislation includes action by Congress, state legislatures, local councils, or similar governing bodies, with respect to acts, bills, resolutions, or similar items (such as legislative confirmation of appointive office). It also includes action by the public in referenda, ballot initiatives, constitutional amendments, or similar procedures. It does not include actions by executive, judicial, or administrative bodies.

An organization is considered to be attempting to influence legislation if it contacts, or urges the public to contact, members or employees of a legislative body for the purpose of proposing, supporting or opposing legislation, or if the organization advocates the adoption or rejection of legislation.

Organizations may, however, engage in public policy issues without the activity being considered lobbying. For example, organizations may conduct educational meetings, prepare and distribute educational materials, or otherwise consider public policy issues in an educational manner without jeopardizing their tax-exempt status.

If lobbying activities are substantial, a 501(c)(3) organization may fail the operational test and risk losing its tax-exempt status. Substantiality is measured by one of the following two tests:

- Substantial part test
  - Expenditure test
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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Measuring Lobbying Activity: Substantial Part Test**

The substantial part test determines substantiality on the basis of all the pertinent facts and circumstances in each case. The IRS considers many factors, including the time devoted (by both compensated and volunteer workers) and the expenditures devoted to the activity, when determining whether the lobbying activity is substantial.

Under the substantial part test, an organization that conducts excessive lobbying activity in any taxable year may lose its tax-exempt status, resulting in all of its income being subject to tax. In addition, an organization is subject to an excise tax equal to 5 percent of its lobbying expenditures for the year in which it ceases to qualify for exemption.

Further, a tax equal to 5 percent of the lobbying expenditures for the year may be imposed against organization managers who facilitated or agreed to such expenditures with the knowledge that the expenditures would likely result in the loss of tax-exempt status.

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### **Measuring Lobbying Activity: Expenditure Test**

As an alternative to the subjective substantial part test, public charities may elect to use the expenditure test under section 501(h), which is an objective, mathematical test. Sections 501(h) and 4911 of the Code establish a sliding scale of permissible “lobbying nontaxable amounts.” Expenditures in excess of the nontaxable amount are called excess lobbying expenditures and are subject to a 25 percent excise tax. In addition, an organization will lose its exemption if it “normally” spends more than 150 percent of its lobbying nontaxable amount over a 4-year period.

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### **Important Facts**

### **New Ideas**

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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**Measuring  
Lobbying  
Activity:  
Expenditure  
Test New Ideas  
(continued)**

Churches and church-related organizations, including integrated auxiliaries and conventions or associations of churches and affiliates of these organizations, may not use the expenditure test.

Organizations electing to use the expenditure test must file Form 5768, *Election/Revocation of Election by an Eligible IRC Section 501(c)(3) Organization to Make Expenditures to Influence Legislation*, at any time during the tax year for which it is to be effective. The election remains in effect for succeeding years unless it is revoked by the organization. Revocation of the election is effective on the year following the year in which the revocation is filed.

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**Political  
Campaign  
Activity**

Section 501(c)(3) organizations are prohibited from directly or indirectly participating or intervening in any political campaign on behalf of or in opposition to any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made on behalf of the organization in favor of or in opposition to any candidate for public office violate the prohibition against political campaign activity. Violation of this prohibition may result in denial or revocation of tax-exempt status and the imposition of an excise tax on the amount of the political expenditure.

For example, voter education or registration activities with evidence of bias that: (a) would favor one candidate over another; (b) oppose a candidate in some manner, or (c) have the effect of favoring a candidate or group of candidates, would constitute prohibited participation or intervention.

Depending on the facts and circumstances, certain activities or expenditures may not be prohibited. For example, certain voter education activities, including the presentation of public forums and the publication of voter education guides, conducted in a non-partisan manner, do not constitute prohibited political campaign activity.

In addition, other activities intended to encourage people to participate in the electoral process, such as voter registration and get-out-the-vote drives, would not constitute prohibited political campaign activity if conducted in a non-partisan manner.

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Individual Activity by Organization Leaders**

The political campaign activity prohibition is not intended to restrict free expression on political matters by leaders of organizations speaking for themselves in their private capacity as individuals. Nor are they prohibited from speaking about important issues of public policy. However, for their organizations to remain exempt under section 501(c)(3), leaders cannot make partisan comments in official organization publications or at official functions.

To avoid potential attribution of their comments outside of organization functions and publications, organization leaders who speak or write in their individual capacity are encouraged to indicate their comments are personal and not intended to represent the views of the organization.

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### **Inviting a Candidate to Speak**

Depending on the facts and circumstances, an organization may invite political candidates to speak at its events without jeopardizing its tax-exempt status. Political candidates may be invited in their capacity as candidates, or individually (not as a candidate).

Speaking as a Candidate: When a candidate speaks at an organization event as a political candidate, the organization must take steps to ensure that:

- It provides an equal opportunity to political candidates seeking the same office
- It does not indicate any support of or opposition to the candidate (this should be stated explicitly when the candidate is introduced and in communications concerning the candidate's attendance)
- No political fundraising occurs

Equal Opportunity to Participate: In determining whether candidates are given an equal opportunity to participate, an organization should consider the nature of the event to which each candidate is invited and the manner of presentation.

For example, an organization that invites one candidate to speak at its well-attended annual banquet, but invites the opposing candidate to speak at a sparsely attended general meeting, will have violated the political campaign prohibition, even if the manner of presentation for both speakers is otherwise neutral.

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Inviting a Candidate to Speak** (continued)

Public Forum: Sometimes an organization invites several candidates to speak at a public forum. A public forum involving several candidates for public office may qualify as an exempt educational activity. However, if the forum is operated to show a bias for or against any candidate, it would be considered intervention or participation in a political campaign and would be a violation of the prohibition.

When an organization invites several candidates to speak at a forum, it should consider the following factors:

- Whether questions for the candidate are prepared and presented by an independent, nonpartisan panel
- Whether the topics discussed by the candidates cover a broad range of issues that the candidates would address if elected to the office sought and are of interest to the public
- Whether each candidate is given an equal opportunity to present his or her views on the issues discussed
- Whether the candidates are asked to agree or disagree with positions, agendas, platforms, or statements of the organization
- Whether a moderator comments on the questions or otherwise implies approval or disapproval of the candidates

Speaking as a Non-Candidate: An organization may invite political candidates to speak in a non-candidate capacity. For instance, a political candidate may be a public figure because he or she:

- Currently holds, or formerly held, public office
- Is considered an expert in a non-political field
- Is a celebrity or has led a distinguished military, legal, or public service career

When a candidate is invited to speak at an event in a non-candidate capacity, it is not necessary for the organization to provide equal access to all political candidates.

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## **JEOPARDIZING 501(c)(3) STATUS, Continued**

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### **Inviting a Candidate to Speak** (continued)

However, the organization must ensure that:

- The individual is chosen to speak solely for reasons other than candidacy for public office
- The individual speaks only in a non-candidate capacity
- Neither the individual nor any representative of the organization makes any mention of the individual's candidacy or the election
- The event is held in a nonpartisan atmosphere
- No campaign activity occurs in connection with the candidate's attendance

In addition, the organization should clearly indicate the capacity in which the candidate is appearing and should not mention the individual's political candidacy or the upcoming election in the communications announcing the candidate's attendance at the event.

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### **Important Facts**

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### **New Ideas**

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Voter Guides**

Some organizations distribute voter guides as part of their voter education activities. Voter guides are usually distributed during an election campaign and provide information on how candidates stand on various issues.

A careful review of the following facts and circumstances may help determine whether an organization's publication or distribution of voter guides constitutes prohibited political campaign activity:

- Whether the candidates' positions are compared to the organization's position
- Whether the guide includes a broad range of issues that the candidates would address if elected to the office sought
- Whether the description of issues is neutral
- Whether all candidates for an office are included
- Whether the descriptions of candidates' positions are either:
  - The candidates' own words in response to questions
  - A neutral, unbiased, and complete compilation of all candidates' positions

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### **Business Activity**

The question of whether an activity constitutes participation or intervention in a political campaign may also arise in the context of a business activity of the organization, such as the selling or renting of mailing lists, the leasing of office space, or the acceptance of paid political advertising. In this context, some of the factors to be considered in determining whether the organization has engaged in prohibited political campaign activity include the following:

- Whether the good, service, or facility is available to the candidates on an equal basis
  - Whether the good, service, or facility is available only to candidates and not to the general public
  - Whether the fees charged to candidates are at the organization's customary and usual rates
  - Whether the activity is conducted only for the organization or solely for the candidate
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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### **Consequences of Political Campaign Activity**

In addition to risking loss of tax-exempt status under section 501(c)(3) and eligibility to receive tax-deductible contributions, an organization that engages in political campaign activity may become subject to an excise tax on its political expenditures. A political expenditure is any amount paid or debt incurred while participating or intervening in any political campaign. This excise tax may be imposed in addition to, or in lieu of, revocation of exempt status. The organization must correct the violation to avoid additional taxes.

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### **Excise Tax**

An initial tax is imposed on an organization at the rate of 10 percent of the political expenditures. Also, a tax at the rate of 2.5 percent of the expenditures is imposed against the organization managers who, without reasonable cause, agreed to the expenditures knowing they were political. The tax on management may not exceed \$5,000 with respect to any one expenditure.

In any case in which an initial tax is imposed against an organization, and the expenditure is not corrected within the period allowed by law, an additional tax equal to 100 percent of the expenditures is imposed. In that case, an additional tax is also imposed against the organization managers who refused to agree to make the correction. The additional tax on management is equal to 50 percent of the expenditures and may not exceed \$10,000 for any one expenditure.

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### **Correction of Expenditure**

Correction of a political expenditure requires the recovery of the expenditure, to the extent possible, and establishment of safeguards to prevent future political expenditures.

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### **Important Facts**

### **New Ideas**

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## JEOPARDIZING 501(c)(3) STATUS, Continued

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### Failure to Comply with Reporting Obligations

While 501(c)(3)s are exempt from federal income tax and unemployment tax, most of them will have information reporting obligations. These are met by filing Forms 990, 990-EZ, or 990-N. For particulars on which organizations must file, which form to use and how to complete it, see Chapter 8.

Failure to file Form 990, Form 990-EZ, or Form 990-N can jeopardize an organization's tax-exempt status. If an organization does not file for 3 consecutive years, its tax-exempt status will be revoked as of the filing due date for the third return. If tax-exempt status is revoked on this basis, the organization may reapply by filing Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, and paying the appropriate user fee to have its tax-exempt status reinstated. If it can show reasonable cause for not filing, the reinstatement of tax-exempt status may be retroactive.

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### For More Information

- Publication 557, *Tax-Exempt Status for Your Organization*
  - Publication 1828, *Tax Guide for Churches and Religious Organizations*
  - Publication 4221-PC, *Compliance Guide for 501(c)(3) Public Charities*
  - Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*
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### Forms and Publications

You may order forms and publications by calling (800) 829-3676, or by downloading them from [www.irs.gov/formspubs/](http://www.irs.gov/formspubs/).

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## **Jeopardizing (c)(3) Status - Case Studies**

### **Case Study 1**

Jane Doe founded XYZ Charity, a 501(c)(3) organization, to aid the victims of severe injuries resulting from motor vehicle accidents, stroke, drowning, and other related causes. XYZ provides funds and therapeutic equipment, runs fundraising affairs and social functions to aid victims, and exchanges and disseminates information concerning recent breakthroughs in care and treatment of injuries in all stages of recovery.

Jane's family has supported her efforts by financially supporting the organization and serving as members of the Board of Directors. The Doe family maintains complete control of XYZ Charity.

Wanda Doe, Jane's daughter, was the victim of a motor vehicle accident. Through the Charity, she receives services and assistance. Roughly, thirty percent of the organization's income is expended for Wanda's benefit.

- (1) Does this scenario show private benefit or inurement? Why?
  
- (2) If there is private benefit or inurement, what could the organization have done to prevent it?

### **Case Study 2**

Charity B was formed by parents of children attending a private school. Charity B's sole purpose is to provide bus transportation to and from the school for the member's children. The Board of Directors and all positions within the charity are filled by the parents. The parents pay an initial fee and an additional charge for each child. The organization's income equals the operation's expenses.

- (1) Does this scenario show private benefit or inurement? Why?
  
- (2) If there is private benefit or inurement, what could the organization have done to prevent it?

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## **Jeopardizing Section 501(c)(3) Status - Case Studies, Continued**

### **Case Study 3**

Charity C was formed to preserve a lake as a public recreational facility and to improve the condition of the water in the lake to further enhance its recreational features. The lake is large and borders several municipalities. The public uses it extensively for recreation. Along its shores are public beaches, launching ramps, and other public facilities. Charity C is financed by contributions from lake front property owners, members of the adjacent community, and municipalities bordering the lake. The improved water quality and recreational opportunities surrounding the lake have increased the property values of the lake front residences.

- (1) Does this scenario show private benefit or inurement? Why?
  
- (2) If there is private benefit or inurement, what could the organization have done to prevent it?

### **Case Study 4** (Work both scenarios; arrive at separate conclusions for each.)

#### **Scenario A – Individual Activity by an Organization’s Leader**

B is the president of University K, a 501(c)(3) organization. University K publishes a monthly alumni newsletter. In each issue, President B has a column titled “My Views.” The month before the election, President B states in the “My Views” column, “It is my personal opinion that Candidate U should be reelected.” For that one issue, President B pays from his personal funds the portion of the cost of the newsletter attributable to the “My Views” column.

- (1) What factors should be considered in determining whether the prohibition against political intervention has been violated?
  
- (2) After considering these factors, do you think President B’s actions constitute political campaign intervention attributable to University K? Why or why not?

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*Continued on next page*

## **Jeopardizing Section 501(c)(3) Status - Case Studies, Continued**

### **Scenario B – Candidate Appearances**

E is the president of N, a historical society with a 501(c)(3) exemption. In the month prior to an election, President E invites the four Congressional candidates for the district in which Society N is located to address the members, one each at a regular meeting held in successive weeks. Each candidate is given an equal opportunity to address and field questions on a wide variety of topics from the members. One of the candidates declines the invitation. Society N's publicity announces the dates for each of the candidate's speeches, states that the order of the speakers was determined at random and indicates that one invited candidate has declined. President E's introduction of each candidate include no comments on their qualifications or any indication of a preference for any candidate.

- (1) What factors should be considered in determining whether the prohibition against political intervention has been violated?
  
  
  
  
  
  
  
  
  
  
- (2) After considering these factors, has Society E engaged in political activity by inviting the speakers? Why or why not?
  
  
  
  
  
  
  
  
  
  
- (3) Has President E engaged in political activity attributable to Society N? Why or why not?

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## Sample Conflict of Interest Policy

Note: This policy is also available on Appendix A in the Instructions for Form 1023

### Article I

#### Purpose

The purpose of the conflict of interest policy is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

### Article II

#### Definitions

##### 1. Interested Person

Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

##### 2. Financial Interest

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest in any entity with which the Organization has a transaction or arrangement,
  - b. A compensation arrangement with the Organization or with any entity or individual with which the Organization has a transaction or arrangement, or
  - c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Organization is negotiating a transaction or arrangement.
- Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

## Sample Conflict of Interest Policy

### Article III

#### Procedures

##### **1. Duty to Disclose**

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

##### **2. Determining Whether a Conflict of Interest Exists**

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

##### **3. Procedures for Addressing the Conflict of Interest**

**a.** An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

**b.** The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

**c.** After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

**d.** If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

##### **4. Violations of the Conflicts of Interest Policy**

**a.** If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

**b.** If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

## Sample Conflict of Interest Policy

### Article IV

#### Records of Proceedings

The minutes of the governing board and all committees with board delegated powers shall contain:

- a.** The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.
- b.** The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

### Article V

#### Compensation

- a.** A voting member of the governing board who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.
- b.** A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.
- c.** No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization, either individually or collectively, is prohibited from providing information to any committee regarding compensation.
- d.** Physicians who receive compensation from the Organization, whether directly or indirectly or as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.]

## Sample Conflict of Interest Policy

### Article VI

#### Annual Statements

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

- a. Has received a copy of the conflicts of interest policy,
- b. Has read and understands the policy,
- c. Has agreed to comply with the policy, and
- d. Understands the Organization is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

### Article VII

#### Periodic Reviews

To ensure the Organization operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- b. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Organization's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

### Article VIII

#### Use of Outside Experts

When conducting the periodic reviews as provided for in Article VII, the Organization may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.