

IRS ISSUES NEW GUIDANCE AND REQUIREMENTS FOR GROUP EXEMPTIONS FOR TAX-EXEMPT ORGANIZATIONS

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NONPROFIT SPECIAL ALERT™



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After a hiatus of more than five years, during which it suspended applications for new group exemptions for nonprofit organizations, the Internal Revenue Service released Revenue Procedure 2026-8 (RP 2026-8) on January 15, 2026, setting forth new guidance and requirements for group exemptions. RP 2026-8 replaces previously effective guidance on obtaining and maintaining group exemptions and permits new group exemption applications to be filed beginning January 20, 2026. RP 2026-8 offers a transition period for compliance with certain of its new requirements.

Background and Context

An IRS group exemption allows a tax-exempt “central organization” to establish tax-exempt status for its affiliated “subordinate” organizations without the subordinate organizations having to apply individually for IRS recognition of exempt status.¹ In other words, under the group exemption process, the central organization (the holder of the group exemption) is essentially deputized with the authority of the IRS to recognize the tax-exempt status of its affiliated subordinate organizations. The group exemption process simplifies tax compliance and reduces administrative burdens, making it an attractive option for many religious associations or denominations, as well as other nonprofits with multiple branches or chapters.

EXAMPLES

A denominational headquarters organization may obtain a group exemption from the IRS and then officially recognize its affiliated churches as members of its group exemption. Under IRS guidance, the denominational headquarters organization (the group exemption holder) is considered the “central organization,” and the affiliated member churches are considered “subordinates” or “subordinate organizations,” regardless of whether the affiliated member churches are actually subordinate to the denominational headquarters organization as a matter of governance or polity. When the denominational headquarters organization reports to the IRS that the affiliated churches are members of its group exemption, the IRS officially recognizes the tax-exempt status of the affiliated member churches...the affiliated member churches are not required to apply individually to the IRS for recognition of exempt status.²

¹The terms “central organization” and “subordinate” are the terms used in published IRS guidance to describe the group exemption holder and the affiliated member organizations of the group exemption, respectively. These terms can have connotations beyond the IRS group exemption guidance that carry certain implications about the relationship between the “central organization” and its “subordinates.” Despite comments requesting that it change the nomenclature to respect the fact that not all member organizations in a group exemption are “subordinate” to the group exemption holder, the IRS declined to adopt new labels for the group exemption holder and the members of its group exemption, stating that the existing terminology has been in use for an extended period of time. The IRS did note in ancillary comments, however, that its use of the terms “central organization” and “subordinate” is not intended to have any application or significance outside the context of the group exemption process.

²Churches are not required under federal tax law to obtain recognition by the IRS – either individually or via a group exemption – in order to be tax-exempt as 501(c)(3) organizations. Many churches wish to have official IRS recognition of their exempt status, however, for a variety of reasons. For churches that are part of a convention, association, or denomination of churches, obtaining official IRS recognition of exempt status through the group exemption process can be a much simpler way to accomplish that result than applying for IRS recognition individually.

A nonprofit charity headquarters organization with many local chapters may obtain a group exemption from the IRS and then officially recognize its affiliated local chapters as members of its group exemption. Under IRS guidance, the headquarters organization (the group exemption holder) is considered the “central organization,” and the affiliated local chapters are considered “subordinates” or “subordinate organizations,” regardless of whether the affiliated local chapters are actually subordinate to the denominational headquarters organization as a matter of governance. When the headquarters organization reports to the IRS that the affiliated local chapters are members of its group exemption, the IRS officially recognizes the tax-exempt status of the affiliated local chapters...the affiliated local chapters are not required to apply individually to the IRS for recognition of exempt status.³

The Requirements of New RP 2026-8

Following are the more significant requirements for group exemptions under RP 2026-8. (Note that RP 2026-8 contains a number of additional requirements, many of them administrative in nature, that are not addressed in this Alert...such as due dates for form filings, etc.)

Recognition of Exemption

The central organization must already have obtained recognition as a tax-exempt organization or must apply for such recognition at the time it applies for a group exemption.

Minimum Number of Subordinate Organizations

A central organization must have at least five subordinate organizations to obtain a group exemption letter, and it must have at least one subordinate organization to maintain the group exemption letter thereafter. (Some transition relief applies with respect to preexisting group exemption letters. Transition relief is addressed later in this Alert.)

Only One Group Exemption Letter

A central organization may maintain only one group exemption letter. (Some transition relief applies with respect to preexisting group exemption letters. Transition relief is addressed later in this Alert.)

Subordinate Organizations Must Be “Affiliated With” the Central Organization

Each subordinate organization initially included in a group application, or subsequently added to a group exemption letter, must be affiliated with the central organization. Affiliation is generally determined by applying the facts and circumstances (some examples are provided in RP 2026-8); however, **in the case of a subordinate organization that is a church or a convention or association of churches, “the sharing of common religious bonds or convictions” with the central organization constitutes affiliation.** (Some transition relief applies with respect to preexisting group exemption letters. Transition relief is addressed later in this Alert.)

³ For small organizations like local chapters of a national nonprofit charity, being able to obtain official IRS recognition of exempt status via the group exemption process, as opposed to having to apply to the IRS individually, can be a huge advantage. Unlike churches and certain other church-related organizations that are not required to obtain IRS recognition of exempt status in order to be tax exempt as 501(c)(3) organizations, non-religious charities must obtain IRS recognition one way or the other in order to be exempt.

Subordinate Organizations Must Be Subject to **Either** the Central Organization's "General Supervision" **or** Its "Control"

Each subordinate organization initially included in a group application, or subsequently added to a group exemption letter, must be subject to **either** the central organization's "general supervision" **or** its "control." (Some transition relief applies with respect to preexisting group exemption letters. Transition relief is addressed later in this Alert.)

General Supervision

A subordinate organization is subject to the general supervision of a central organization if the central organization:

1. Annually obtains, reviews, and retains information on the subordinate organization's finances, activities, and compliance with annual filing requirements; **and**
2. Annually transmits (including electronically) written information to, or otherwise educates, the subordinate organization about the requirements to maintain tax-exempt status under the applicable paragraph of § 501(c), including, but not limited to, annual filing requirements, if applicable.

A central organization may comply with the general supervision requirement of paragraph (1.) above by annually obtaining a copy of the subordinate organization's Form 990 or 990-EZ (not Form 990-N). For subordinate organizations that are not required to file a Form 990 series information return (e.g., churches and certain church-related organizations), the central organization is **not required** to comply with paragraph (1.) above with respect to those subordinates...that is, the requirement described in paragraph (1.) above effectively does not apply.

A central organization may comply with the general supervision requirement of paragraph (2.) above with respect to subordinate organizations described in Section 501(c)(3) by annually providing a subordinate organization with an electronic link to the current version of either IRS Publication 557 (*Tax-Exempt Status for Your Organization*) or IRS Publication 1828 (*Tax Guide for Churches & Religious Organizations*), whichever is more appropriate.

Control

A subordinate organization is subject to the control of a central organization if:

1. The central organization appoints the subordinate organization's directors or trustees who possess a majority of the voting power with respect to the subordinate organization's governance,
2. The central organization appoints a majority of the subordinate organization's officers,
3. The subordinate organization's directors or trustees possessing a majority of the voting power with respect to the subordinate organization's governance are directors or trustees of the central organization,
4. A majority of the subordinate organization's officers are officers of the central organization, **or**

5. The central organization and the subordinate organization enter into a written agreement that evidences the central organization's control over the subordinate organization's activities and operations. For example, the written agreement may contain provisions that describe an alternative governance structure in which the central organization must approve the election of the subordinate organization's directors or has the right to remove directors at any time with or without cause. Alternatively, the central organization may enter into a management agreement with the subordinate organization, giving it direct control over the subordinate organization's activities and operations.

EXAMPLE

Revenue Procedure 2026-8 offers the following example for a group exemption held by a church that has hospitals, schools (below the college level), and churches as subordinate organizations:

Central organization **A** is described in Section 501(c)(3). **A** has a group exemption letter for subordinate organizations described in Section 501(c)(3) that are organized and operated for charitable, educational, and religious purposes. **A** is a church, and the subordinate organizations are churches, schools (below college level), and hospitals.

A exercises general supervision over **A**'s subordinate organizations that are hospitals by annually obtaining, reviewing, and retaining copies of those subordinate organizations' annual information returns and by annually providing each hospital an electronic link to the current version of Publication 557, *Tax-Exempt Status for Your Organization*, available on [irs.gov](https://www.irs.gov), which provides information about the requirements to maintain tax-exempt status under Section 501(c)(3) and annual filing requirements.

A exercises general supervision over **A**'s subordinate organizations that are churches and schools by annually providing each church and school an electronic link to the current version of Publication 1828, *Tax Guide for Churches & Religious Organizations*, available on [irs.gov](https://www.irs.gov), which provides information about the requirements to maintain tax-exempt status under Section 501(c)(3). **A** is not required to annually obtain, review, or retain information on the finances, activities, and compliance with annual filing requirements of the subordinate organizations that are churches or schools because those subordinate organizations are not required to file annual information returns or notices pursuant to Section 1.6033-2(g)(1)(i).

All Subordinate Organizations Must Be Described in the Same Paragraph of Section 501(c)

All subordinate organizations under a group exemption letter must be described in the same paragraph of Section 501(c); however, they are not required to be described in the same paragraph of Section 501(c) as the central organization. (Some transition relief applies with respect to preexisting group exemption letters. Transition relief is addressed later in this Alert.)

New Subordinate Organizations Must Authorize Inclusion in a Group Ruling

A subordinate organization must authorize the central organization to include it in a group application or to add it to an existing group exemption letter. The authorization must be in writing and signed by an officer of the subordinate organization who has personal knowledge of the facts and authority to legally bind the subordinate organization.

Uniform Purpose Statement Requirement

Subordinate organizations that share the same purpose must have a uniform purpose statement in their governing instruments (for example, a charter, trust indenture, articles of incorporation, etc.). If one or more subordinate organizations covered by a group exemption letter have a purpose that is different from the purpose of other subordinate organizations covered by the letter, the subordinate organizations that share a purpose must include the same uniform purpose statement in their governing instruments. For example, if a group exemption letter includes subordinate organizations that are schools and hospitals, the subordinate organizations that are schools must include the same uniform purpose statement in their governing instruments, and the subordinate organizations that are hospitals must include the same uniform purpose statement in their governing instruments. The uniform purpose statement must generally describe the purpose of the subordinate organizations.

Certain Organizations May Not Be Included in a Group Exemption

Organizations that are organized in a foreign country, private foundations, Type III supporting organizations, organizations whose exemptions have been automatically revoked for failure to file Form 990 and whose exemption has not been reinstated, and certain nonprofit health insurance organizations are not eligible to be included in a group exemption.

Central Organizations (with Certain Exceptions) Must Submit Information at Least Annually, Reporting Certain Changes in Subordinate Organizations

Central organizations with group exemptions must submit, at least annually and in a specified manner, certain information about changes in their subordinate organizations. RP 2026-8 refers to this report as “**Supplemental Group Ruling Information**” (SGRI). RP 2026-8 provides that an “annotated directory” of subordinate organizations will not meet the SGRI annual reporting requirements. **A central organization described in Section 501(c)(3) that is a church or a convention or association of churches, and that maintains a group exemption letter, may, but is not required to, submit SGRI information.**

Transition Relief for Certain Requirements for Preexisting Group Exemption Letters and Subordinates

As transition relief, the following provisions of RP 2026-8 do not apply to preexisting group exemption letters and preexisting subordinate organizations during the transition period that ends on January 22, 2027:

1. The requirement that a central organization must have at least one subordinate organization to maintain a group exemption letter,
2. The requirement that a central organization can have only one group exemption letter,
3. The requirements that a central organization must have an affiliation with its subordinate organizations and that subordinate organizations must be subject to either the central organization’s general supervision or its control, and
4. The requirement that all subordinate organizations must be described in the same paragraph of Section 501(c).

Permanent Inapplicability of Certain Requirements for Preexisting Subordinates

As permanent relief, the following provisions of RP 2026-8 **never** apply to preexisting subordinate organizations:

1. The requirement that subordinate organizations sharing the same purpose have a uniform purpose statement,
2. The prohibition of Type III supporting organizations from inclusion in a group exemption,
3. The prohibition of certain nonprofit health insurance organizations from inclusion in a group exemption, and
4. Certain other less significant administrative requirements.

BMWL Commentary on the New Revenue Procedure

Prior to issuing RP 2026-8, the IRS issued a 2020 notice (Notice 2020-36) proposing new provisions for the new Revenue Procedure and requesting comments. BMWL submitted extensive comments at the request of a national convention of churches, specifically addressing concerns about the proposed requirements. Among the more significant elements of our comments were that churches and conventions or associations of churches should be treated differently from other types of organizations, given the fact that such organizations are not required under federal law to obtain recognition of their exempt status in order to be exempt as 501(c)(3) organizations.

The IRS's proposed guidance in Notice 2020-36 would have required central organizations to maintain certain relationships with new subordinate organizations in the areas of "affiliation" and "general supervision or control," which were clearly problematic for many religious denominational and similar organizations. In fact, the proposed guidance was so adverse to the polity of many religious organizations that many of them would have either frozen their group exemptions (not adding any new subordinates) or terminated them had the proposed guidance actually been implemented. In many ways, the IRS heeded the advice and requests made by commenters, including BMWL, in drafting the final guidance in RP 2026-8. Churches and conventions or associations of churches are, indeed, treated very differently from other organizations in multiple significant ways. While such organizations did not get everything they requested in the final version of the guidance, they got most of it.

The Uniform Purpose Statement – A Potentially Problematic Issue for Many Group Exemptions

In our comments to the IRS about its proposed guidance on group exemptions, we stressed that, under the polity of many conventions or associations of churches, the central organization has no authority to speak into or control the governance or the governing documents of its "subordinate" organizations. The IRS's original proposed guidance would have required new subordinate organizations to have a "uniform governing instrument" (such as a charter or articles of incorporation). We described in our comments to the IRS that such a requirement would simply not work for multiple reasons...one of which is that the polity of many conventions or associations of churches is such that churches are autonomous...and free to govern themselves as they see fit.

In the final guidance (RP 2026-8), the IRS heeded that commentary to a point, but it maintained a requirement that all new subordinate organizations sharing the same purpose have a "uniform purpose statement" in their "governing instruments." RP 2026-8 does not clearly define the term "uniform purpose

statement.” It does provide that the uniform purpose statement “must generally describe the purpose of the subordinate organizations.” How “uniform” must such purpose statements be in order to pass muster with the IRS? The answer to that question is not clear. Additionally, the fact remains that central organizations in many associations or conventions of churches simply do not have any authority over the governance or governing documents of their “subordinate” churches.

Thankfully, the requirement for uniform purpose statements only applies to new subordinates in a group exemption. Preexisting subordinates (those included in a group exemption on the date of the IRS publication of RP 2026-8) are not subject to the uniform purpose statement requirement...ever.

We are hopeful that the IRS may issue some kind of follow-up guidance with respect to the uniform purpose statement requirement...at least for churches and conventions or associations of churches...that provides significant latitude as to what constitutes “uniform” for this purpose for new subordinate organizations...or possibly exempting churches and conventions or associations of churches from the uniform purpose statement requirement. Interestingly, RP 2026-8 requires that, with respect to any newly added subordinate in a group exemption, the central organization must not only affirm that the subordinate has a uniform purpose statement, but also submit the “text” of that uniform purpose statement. However, as noted later in this Alert, central organizations that are churches or conventions or associations of churches are exempt from the requirement to update the IRS with respect to changes in their subordinates.

Religious Central Organizations Will Need to Communicate with Their Subordinate Organizations About One Thing Going Forward – A New Requirement for Them

Under RP 2026-8, churches and conventions or associations of churches are not exempt from the requirement to exercise “general supervision” of their subordinate organizations by annually transmitting (including electronically) written information to, or otherwise educating, their subordinate organizations about the requirements to maintain tax-exempt status under the applicable paragraph of Section 501(c), including, but not limited to, annual filing requirements, if applicable. RP 2026-8 provides that a central organization may satisfy this requirement by annually providing a subordinate organization with an electronic link to the current version of either IRS Publication 557 (*Tax-Exempt Status for Your Organization*) or IRS Publication 1828 (*Tax Guide for Churches & Religious Organizations*), whichever is more appropriate.

Churches and conventions or associations of churches that are central organizations with a group exemption letter have not been required under prior guidance to formally communicate with their subordinate organizations in a specific manner. **This new requirement will be an additional administrative burden for many central organizations.**

Churches and Conventions or Associations of Churches Are Still Exempt from the Requirement to Report Changes in Group Exemptions Annually to the IRS

RP 2026-8 preserves the exemption for central organizations that are churches or conventions or associations of churches from the annual requirement to report updates and changes in their subordinates to the IRS. Such organizations are free, however, to submit such reports voluntarily. **A potential benefit of voluntary submission by churches or associations or conventions of churches of updated information about their subordinate organizations is that the IRS will likely include the subordinate organizations in the publicly accessible Exempt Organization Master List, thereby providing publicly available evidence of recognition of the organizations’ exempt status.**

Action Items

Nonprofit organizations with group exemptions must carefully analyze the requirements of RP 2026-8 and determine what actions or changes to their processes may be necessary to maintain compliance. Special attention should be given to new requirements and their effective dates. For provisions subject to transition relief (through January 22, 2027), nonprofits should implement plans to ensure compliance by the end of the transition period. Failure to comply with the new requirements could jeopardize an organization's group exemption.

Final Thoughts

RP 2026-8 establishes significant new authoritative guidance for group exemption holders (central organizations) and group exemption members (subordinate organizations). The requirements of RP 2026-8 are not nearly as onerous as the guidance initially proposed by the IRS in 2020 – thanks in large part to the numerous and significant comments submitted...especially by religious organizations. The final guidance does contain some new requirements...even for religious organizations...that some will find burdensome. The “uniform purpose statement” requirement for new subordinate organizations will likely be problematic for many group exemption holders...unless the IRS issues follow-up practical guidance granting some leeway in that area. We hope the IRS does that. Aside from that obstacle, with a little help from the new array of AI administrative tools and resources we all have at our disposal now, we believe most organizations...including churches and conventions or associations of churches...will find a tolerable way forward, and will continue to maintain and grow their group exemptions.

BMWL Can Help

As always, if you would like assistance addressing the information described in this Alert, we would be glad to help! Please email our team at Info@NonprofitCPA.com.

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