

Starting Off Right: What New Non-501(c)(3) Organizations Need to Know

- The information contained in this presentation is current as of the date it was presented. It should not be considered official guidance.
- This program is being recorded, and will be maintained in accordance with federal record-keeping laws.



Webinar

Starting Off Right: What New Non-501(c)(3) Organizations Need to Know



Tax Exempt/Government Entities
Exempt Organizations
February 24, 2011

Starting Off Right: What New Non-501(c)(3) Organizations Need to Know

This webinar covers:

501(c)(4) - Social Welfare groups

501(c)(5) - Labor, Agricultural & Horticultural

501(c)(6) – Business Leagues

501(c)(7) – Social Clubs

501(c)(8) – Fraternal Beneficiary Societies

501(c)(10) – Domestic Fraternal Societies



Starting Off Right: What New Non-501(c)(3) Organizations Need to Know

“Determination” Letter

IRS recognizes your tax-exempt status

Includes:

*Compliance Guide for Tax-Exempt
Organizations* (Publication 4221-NC)



5 Areas to Watch

Private Benefit/Inurement

Lobbying/Legislation

Political Campaigns

Unrelated Business Income

Reporting Obligations



Basic Requirements

Organized and operated exclusively for exempt purposes.



Prohibition on Private Benefit/ Inurement

Activities benefitting the private interests of any insider.

See Publication 4221-NC



Prohibition on Private Benefit/ Inurement

Examples:

- dividends
- unreasonable compensation
- property transferred at below fair market value.

Prohibition on Private Benefit/ Inurement

Inurement can differ for different types of organizations, depending on their exempt purposes.

www.irs.gov/eo



Intermediate Sanctions (Excise taxes)

Applies to:

- -501(c)(4) organizations
- -Person receiving benefit
- -Organization managers who participated



Intermediate Sanctions Excess Benefit Transaction

- Insider must return the benefit w/ interest
- Pay excise tax using Form 4720
- Managers who knowingly participate also pay excise tax
- Organization must report on Form 990



Ask the Audience

Inurement



Lobbying and Legislative Activities

501(c) 4, 5 and 6 – Unlimited lobbying as long as it's related to tax-exempt purpose



Lobbying and Legislative Activities

What is lobbying?

- Activities intended to influence legislation

What is legislation?

- Action by Congress, a state legislature or a local council, with respect to acts, bills, resolutions or similar items, including legislative confirmation of appointees.

- Includes action by the public in referenda, ballot initiatives, constitutional amendments or similar procedures.



Lobbying and Legislative Activities

An organization is “lobbying” if it contacts, or urges the public to contact, members or employees of a legislative body to propose, support or oppose legislation.

Lobbying and Legislative Activities

- 501(c)(4) social welfare organization,
- 501(c)(5) union,
- 501(c)(6) business league or association

permitted unlimited lobbying, related to the organization's exempt function, without jeopardizing its exempt status.



Lobbying and Membership Dues

- 501(c)(4), 501(c)(5), 501(c)(6) members
Portion of dues that paid for lobbying or political campaigns are **NOT DEDUCTIBLE** by members as a business expense.
- Organization must give member an estimate of portion of dues likely to be spent on these activities in the coming year.



Lobbying and Membership Dues

“Proxy Tax” Alternative

Organization may choose to not notify its members and pay a “proxy tax” – currently 35% - on its lobbying and political campaign expenditures – up to the amount of dues and other similar payments received – during the taxable year.



Lobbying and Membership Dues

Exceptions

- de minimis lobbying or political activities
- substantially all dues from members not entitled to a deduction

Political Activity

Permitted for 501(c) 4, 5 and 6
within certain rules



Political Activity

- May not be organization's primary activity
- Spending subject to tax

Unrelated Business Income (UBI)

Generates taxable income



Unrelated Business Income (UBI)

Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*



Unrelated Business Income (UBI)

Income from:

- Trade or business
- Regularly carried on
- Not substantially related to exempt purpose



Unrelated Business Income (UBI)

Common UBI activities:

- Advertising
- Sale of merchandise
- Services



Unrelated Business Income (UBI)

Common Exceptions:

- Volunteer activities
- Activities for organization members, students, employees, officers
- Selling donated articles
- Traditional bingo

Filing Requirements



Filing Requirements

Depends on revenue and assets

- Form 990
- Form 990-EZ
- Form 990-N (the “e-postcard”)



Filing Requirements

Returns Due...

15th day ...

of the 5th month...

after the close of the tax year



Filing Requirements

Failure to file for 3 consecutive years leads to **AUTOMATIC** revocation of tax-exempt status.



Starting Off Right: What New Non-501(c)(3) Organizations Need to Know

Membership Organizations

501(c)(7) – Social Clubs

501(c)(8) – Fraternal Beneficiary Societies

501(c)(10) – Domestic Fraternal Societies



Membership Organizations

Basic Requirements

- Exclusively exempt purpose
- Private benefit/Inurement prohibited



Membership Organizations

501(c)(7) Social and Recreational



Membership Organizations

501(c)(7) Social and Recreational

- Donations not deductible
- Investment income taxable
- 35% limit on gross receipts from outside



Membership Organizations

501(c)(8) Fraternal Beneficiary Society



Membership Organizations

501(c)(8) Fraternal Beneficiary Society

- Investment income tax exempt
- Contributions deductible



Membership Organizations

501(c)(8) Fraternal Beneficiary Society

- Political activity OK
- Political spending taxable

Membership Organizations

501(c)(10) Domestic Fraternal Society



Membership Organizations

501(c)(10) Domestic Fraternal Society

- Must be organized in U.S.
- Earnings exclusively for exempt purpose
- Contributions deductible



EO Education & Outreach Resources

Internet Resources

IRS Exempt Organizations Web page

www.irs.gov/eo

Life Cycles of Exempt Organizations



EO Education & Outreach Resources

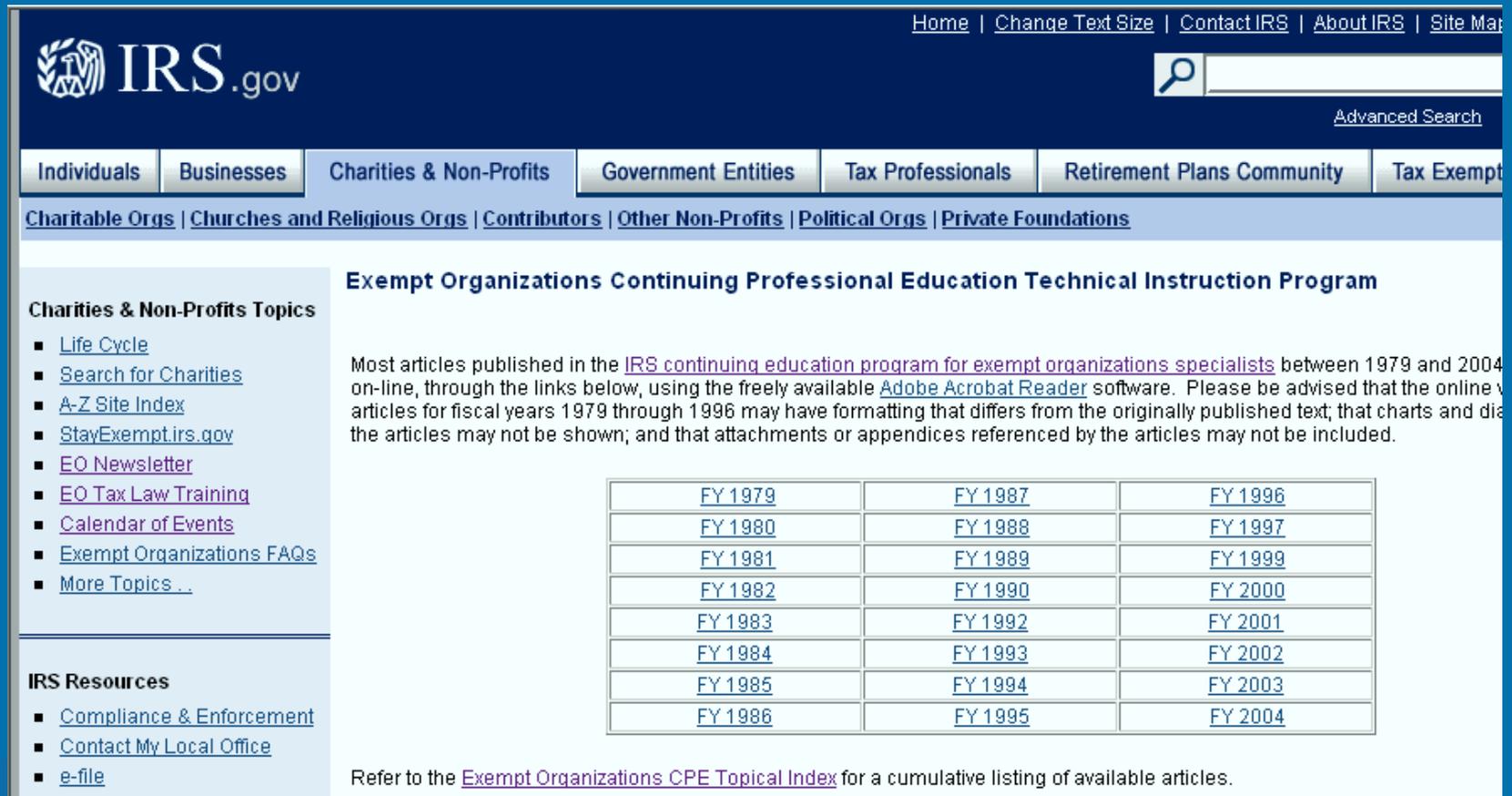
Internet Resources

- IRS Exempt Organizations Web page
www.irs.gov/eo
- Frequently Asked Questions
- Calendar of Events



EO Education & Outreach Resources

“CPE” articles



The screenshot shows the IRS.gov website interface. At the top right, there are links for Home, Change Text Size, Contact IRS, About IRS, and Site Map. Below these is a search bar with a magnifying glass icon and the text 'Advanced Search'. A navigation menu below the search bar includes links for Individuals, Businesses, Charities & Non-Profits (which is highlighted), Government Entities, Tax Professionals, Retirement Plans Community, and Tax Exempt. Below the navigation menu, there are additional links for Charitable Orgs, Churches and Religious Orgs, Contributors, Other Non-Profits, Political Orgs, and Private Foundations.

The main content area is titled 'Exempt Organizations Continuing Professional Education Technical Instruction Program'. Below the title, there is a paragraph of text: 'Most articles published in the [IRS continuing education program for exempt organizations specialists](#) between 1979 and 2004 on-line, through the links below, using the freely available [Adobe Acrobat Reader](#) software. Please be advised that the online versions of articles for fiscal years 1979 through 1996 may have formatting that differs from the originally published text; that charts and diagrams in the articles may not be shown; and that attachments or appendices referenced by the articles may not be included.'

Below the text is a table with three columns of links representing fiscal years from 1979 to 2004. The table is as follows:

FY 1979	FY 1987	FY 1996
FY 1980	FY 1988	FY 1997
FY 1981	FY 1989	FY 1999
FY 1982	FY 1990	FY 2000
FY 1983	FY 1992	FY 2001
FY 1984	FY 1993	FY 2002
FY 1985	FY 1994	FY 2003
FY 1986	FY 1995	FY 2004

Below the table, there is a reference to the [Exempt Organizations CPE Topical Index](#) for a cumulative listing of available articles.

On the left side of the page, there are two sections: 'Charities & Non-Profits Topics' and 'IRS Resources'. The 'Charities & Non-Profits Topics' section includes links for Life Cycle, Search for Charities, A-Z Site Index, StayExempt.irs.gov, EO Newsletter, EO Tax Law Training, Calendar of Events, Exempt Organizations FAQs, and More Topics ... The 'IRS Resources' section includes links for Compliance & Enforcement, Contact My Local Office, and e-file.



EO Education & Outreach Resources

Internet Resources

EO Update e-mail newsletter

Subscribe at www.irs.gov/eo



EO Education & Outreach Resources

Internet Resources

www.stayexempt.irs.gov -- Online courses and workshops for tax-exempt organizations



EO Education & Outreach Resources

Internet Resources

Business Information – www.irs.gov/business



EO Education & Outreach Resources

Toll-free assistance for tax-exempt organizations

877-829-5500



Starting Off Right: What New Non-501(c)(3) Organizations Need to Know

E-mail comments or program suggestions
to: tege.eo.ceo@irs.gov

Thank you

