

# Carolina Regional Volleyball Association

## Tax-Exempt Status – Should we apply or not?

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# Tax-Exempt Status – Should we apply or not?

## Questions:

- 1) Who can apply for tax exempt status?
- 2) What is tax exempt status?
- 3) Where do we apply for tax exempt status?
- 4) When do we apply for tax exempt status?
- 5) How do we apply for tax exempt status?
- 6) Why would we apply for tax exempt status?
- 7) We are tax-exempt, now what?

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Any organization that is organized for one or more of the purposes specifically designated in Section 501 of the Internal Revenue Code.

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Section 501(c)(3):

- **Corporations**, and any community chest, fund, or foundation, **organized and operated exclusively for** religious, charitable, scientific, testing for public safety, literary, or **educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment)**, or for the prevention of cruelty to children or animals, **no part of the net earnings of which inures to the benefit of any private shareholder or individual**, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Section 501(c)(3) organizations that are athletic in nature must fit within one of two criteria:

- 1) Educational
- 2) Foster national or international amateur competition

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Educational:

For athletic organizations, be engaged in activities such as conducting tournaments and prescribing eligibility rules for contestants.

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Foster national or international amateur competition:

- 1) Exclusively foster competition, and
- 2) Primarily conduct **national** or **international** competition or support and develop amateur athletes for that competition

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Section 501(c)(7):

Clubs organized for the pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings inures to the benefit of any private shareholder.



# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

Section 501(c)(7) organizations are commonly known as “Social Clubs.”

Social clubs include amateur sports clubs.

# Tax-Exempt Status – Should we apply or not?

Who can apply for tax exempt status?

- 1) Purpose must include personal contact and fellowship among members who share a common objective of pleasure or recreation.
- 2) Social clubs must limit membership based on the character of the club.
- 3) Social clubs must **not** provide private benefits to any person having personal or private interest in the activities of the organization nor discriminate based on race, color, or religion.

# Tax-Exempt Status – Should we apply or not?

What is tax exempt status?

Tax-exempt status from the Internal Revenue Service exempts the organization from taxation under Subtitle A of the Internal Revenue Code or Federal Income Taxes.

# Tax-Exempt Status – Should we apply or not?

What is tax exempt status?

Tax-exempt status from the IRS does **not** exempt an organization from all types of taxes.

For example, sales and use taxes, employment taxes, and property taxes may still apply to an organization that has tax-exempt status.

# Tax-Exempt Status – Should we apply or not?

What is tax exempt status?

501(c)(3) - Public Charity: Educational or Amateur Athletic Organization

A donation to an organization that received 501(c)(3) status is a tax deductible charitable contribution.

If a person receives something in return for that donation, the amount of the tax deduction is reduced by the value of the goods received.

# Tax-Exempt Status – Should we apply or not?

What is tax exempt status?

501(c)(7) – Social Clubs

No payment or donation to a social club is a charitable contribution for tax purposes.

Therefore, all payments and contributions are **not** deductible on the individual's income tax return.

# Tax-Exempt Status – Should we apply or not?

Where do we apply for tax exempt status?

Application for tax-exempt status is made to the IRS.

For educational or amateur athletic organizations,  
Application for Recognition of Exemption Under Section 501(c)(3),  
Form 1023 is required.

For social clubs,  
Application for Recognition of Exemption Under Section 501(a), Form  
1024 is required.

# Tax-Exempt Status – Should we apply or not?

When do we apply for tax exempt status?

Not until a legal entity has been formed, as some of the requirements of the application cannot be met until this has occurred.

Legal advice to achieve the correct entity form is highly recommended.



# Tax-Exempt Status – Should we apply or not?

Why apply for tax exempt status?

Without tax exempt status, the Internal Revenue Code requires that all income from whatever source derived is gross income to an individual or organization.

# Tax-Exempt Status – Should we apply or not?

Why apply for tax exempt status?

If a company is serving as the conduit for the income and expenses of the organization, then that company may be deemed to be responsible for the income taxes associated with the income from the organization.

The same is true of an individual.

# Tax-Exempt Status – Should we apply or not?

Why apply for tax exempt status?

Legal and tax liability issues may attach to the individual or organization that is conducting the activities of the social club, i.e., planning events, paying for events, scheduling practices, etc.

An issue to discuss with your legal and tax advisors.

# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Submit

Application for Recognition of Exemption Under Section 501(c)(3),  
Form 1023

Or

Application for Recognition of Exemption Under Section 501(a),  
Form 1024

and

Required Attachments.

# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Information required for Form 1023, includes:

- 1) Name, Address, Date of Incorporation;
- 2) Employer Identification Number (If new entity, obtain before applying.);
- 3) Description of activities of organization;
- 4) Compensation of and relationships with officers, directors, trustees, employees and independent contractors;
- 5) Fundraising activities;
- 6) Sources of financial support;

# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Information required for Form 1023 (cont'd)

- 7) If existing entity, revenue and detailed expenses for current year and prior 3 years. If new entity, proposed revenue and detailed expenses for current year and next 2 years.
- 8) Must establish that more than one-third of financial support comes from contributions, membership fees, and gross receipts from activities related to exempt functions.

# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Information required for Form 1024, includes:

- 1) Name, Address, Date of Incorporation;
- 2) Employer Identification Number (If new entity, obtain before applying.);
- 3) Description of activities of organization;
- 4) List of sources of financial support;
- 5) Qualifications of membership;

# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Information required for Form 1024 (cont'd)

- 6) If existing entity, revenue and detailed expenses for current year and prior 3 years. If new entity, proposed revenue and detailed expenses for current year and next 2 years.



# Tax-Exempt Status – Should we apply or not?

How do we apply for tax exempt status?

Attachments required:

- 1) Conformed Copy of Organizing Documents;
- 2) User Fee (amount depends upon Form).

# Tax-Exempt Status – Should we apply or not?

We are tax-exempt, now what?

Requirements going forward for a Public Charity (501(c)(3)):

- 1) File an annual informational return with the IRS. (Form is dependent upon annual gross receipts of organization.)
- 2) Penalties assessed for failure to file and late filing.
- 3) Failure to file the return for three consecutive years will result in automatic revocation of tax-exempt status.
- 4) Required if application is pending.
- 5) Returns must be available for public inspection, as well as application after approved.
- 6) Organization must provide written acknowledgement of donations of \$250 or more.

# Tax-Exempt Status – Should we apply or not?

We are tax-exempt, now what?

Requirements going forward for a Social Club (501(c)(7)):

- 1) File an annual informational return with the IRS. (Form is dependent upon annual gross receipts of organization.)
- 2) Penalties assessed for failure to file and late filing.
- 3) Failure to file the return for three consecutive years will result in automatic revocation of tax-exempt status.
- 4) Required if application is pending.
- 5) Returns must be available for public inspection, as well as application after approved.
- 6) If soliciting donations, must include statement that any donations are not deductible as charitable contributions.

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## Important Take-Aways

- 1) Amateur sports organizations may be eligible for tax-exempt status as an educational organization, an organization that fosters national and international amateur competition, or a social club.
- 2) Donations to an educational organization or an organization that fosters national and international amateur competition are tax deductible for income tax purposes. (501(c)(3))
- 3) Donations to a social club are not tax deductible for income tax purposes. (501(c)(7))
- 4) A specific type of legal entity is required to apply for tax-exempt status.
- 5) Application: Form 1023 or 1024, Return: Form 990 or 990-EZ

# Tax-Exempt Status – Should we apply or not?

## **MOST IMPORTANT**

Talk with legal and tax advisors before, during, and after this process to ensure that all guidelines and reporting requirements are being met.

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## CIRCULAR 230

To ensure compliance with requirements imposed by the IRS any tax advice contained in this communication (or in any attachment) was not intended or written to be used, and cannot be used, for the purpose of (1) avoiding tax related penalties or (2) promoting, marketing or recommending to another party any tax related transaction or matter addressed in this communication.

# Tax-Exempt Status – Should we apply or not?

## Questions?

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