

## **Chapter Tax Responsibilities as a Not-For-Profit Organization**

Dave Beach, Past AROC Treasurer

The IRS recently announced that they would drop the tax exempt status of entities failing to submit tax returns for 2009. Apparently, this was actually announced in advance three years ago, providing a three-year grace period warning, but thousands of groups were unaware of the changes. The tax law changes, taking effect, left many Alfa Romeo Owners Club (AROC) Chapters wondering what they should do.

Let's explain by start at the beginning.

### **AROC ByLaws**

In order to be a part of AROC, per Bylaws Article V, chapters are required to first register within a State as a “not-for-profit” corporation. What is “Not-For-Profit” you ask? Basically, none of the organizational money is returned directly to members/stockholders. These AROC Bylaws, and closely associated AROC Policies & Procedures (P&P’s) are mailed annually to the person each chapter has listed as their point-of-contact That is usually the Chapter President listed in the front of the *Alfa Owner* (AO) (the names are also viewable online at <http://www.aroc-usa.org>). P&P Section E.5 addresses this further by stipulating that bi-annually, Chapters are requested by letter to submit confirmation of their “not-for-profit” standing. George Pezold, our long-standing volunteer legal advisor, reviews the Chapter-submitted documents. Chapters are also generally required by their State of Incorporation to submit certification documents, typically on an annual or bi-annual basis. This, essentially, is the extent AROC requests legal standing by any Chapter, and serves to guide the AROC Administrator (Jolene Justus) to send membership “dues split checks” to certified chapters.

### **Having an FEIN**

Every AROC chapter that has a bank account has, at one time, applied for their Federal Employers Identification Number (FEIN). Most banks require that the account holder submit their social security, or other identifying number to open an account. For organizations, that ID number is most often their FEIN. The application is not a difficult process: file Form SS-4 with the IRS. Costs nothing. The form requires only basic information such organization address, purpose identifier such as Social Welfare Organization 501(C)7, and the responsible party for the application.

### **Tax Exempt Organizations and Taxes**

All organizations, the same as U.S. citizens, are subject to taxation, both federally and locally. AROC does not get involved with any chapter’s taxation procedures at any State, County, or any other local level. At the Federal, IRS level, AROC is registered as a “Tax Exempt” organization, 501(C) 7, Social Welfare Organization. Many chapters have also taken this step, and some may yet want to apply. Being tax exempt does not necessarily mean an organization pays no taxes. There may be taxes on net income received from activities unrelated to the organizational purpose. For instance, if a Chapter, registered as tax-exempt, (like AROC), receives funds from commercial, non-member, advertisers,

that income is taxable. AROC pays taxes on net income received from commercial (not member classified) advertising. Membership dues are not taxed.

AROC annually files an IRS 990 return, and, because AROC has non-direct organization income, also files a 990-T, paying federal taxes. Tax returns are due the 15<sup>th</sup> of the month, 5 months after your organization's end-of-fiscal year. For a many groups, that is every May 15.

## The New Tax Laws

In the past, up to the new IRS requirement, Tax-Exempt Organizations with net income below \$25,000 annually were not required to submit a tax return. The revised IRS process is that all registered tax-exempt organizations must file a return, no matter the income level. The new IRS procedure included a threat to tax exempt registered organizations, failing to file that annual return, of losing their registered "tax Exempt" status. If a chapter never applied, they did not receive correspondence regarding the change from the IRS.

If a chapter wishes to register itself as a federal (separate from state registration) Tax Exempt Organization to take advantage of more favorable taxation rules, begin with filing the more complicated (but definitely not impossible) IRS form 1024. The 1024 asks for organizational purpose, activities, operational information, recent financial records, FEIN, and mother's maiden name (just kidding on that last one). Included with the 1024, is Section "D", where the Chapter describes itself as a 501(C)7 Social Club Organization. Lastly is the unpleasant part: a user fee to become a federal tax-exempt organization. File the 1024-associated Form 8718 along with certification of the annual (either expected or historical) gross receipts, along with a check between "\$400 and much more," to receive an IRS determination of your status as a Federal Tax Exempt Organization. The fee varies according to historical and guesstimated gross receipts of the organization.

Ok, so there is some small good news in all this if you are federally registered as a "tax exempt" organization, with annual gross receipts of less than \$25,000. The IRS received plenty of (negative?) press about the "new" tax filing requirement and, in response, developed a very simple tax return filing method called an "e-Postcard" to submit online. Go to [www.irs.gov/eo](http://www.irs.gov/eo) and look for the link to the Small EO filing requirements. Very simple provided you have a few notes handy...

One last note: The AROC Board considered an IRS option of filing a Tax Exempt determination for itself and an "umbrella" covering all chapters. The system has pros and cons. The cons of a \$3,000 filing fee, potential joint-liability between Chapters (if one chapter has a tax liability, other chapters and AROC could be affected despite not being involved), and widely variable State requirements outweigh the pros, and the Board strongly suggests that each Chapter, if they wish, file for their own determination of taxation status.

Faithfully submitted to the best of my research and knowledge as your recent AROC treasurer – *Dave Beach*