

Tax Reporting

Tax Requirements for Student Clubs

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Tax Reporting

- All income from whatever source derived is taxable and reportable to the IRS unless there is a specific legal exemption



Tax Reporting

- ❑ Should the organization be treated as a separate legal entity, part of an existing entity, or simply a club with no legal status? Does the entity qualify as a tax-exempt organization?

- ❑ Common Types of Tax-Exempt organizations
 - ❑ 501(c)(7) Social Clubs

 - ❑ 501(c)(4) Social Welfare Organizations

 - ❑ 501(c)(3) Nonprofit organizations



501(c)(7) Social Clubs

- ▶ Organized for pleasure, recreation, and other similar non-profitable purposes. To be exempt, a social club must meet the following requirements—
 - ❑ organized for exempt purposes.
 - ❑ Substantially all activities must further exempt purpose
 - ❑ No more than 35% of nonmember income, including investment. No more than 15% derived from nonmember use of club facilities and services. This is a *safe harbor*.
 - ❑ Requires personal contact among members, and membership must be limited (e.g. not open to public)
 - ❑ Must be supported by membership fees, dues, and assessments.
 - ❑ Cannot discriminate against any person on the basis of race, color, or religion (but religious clubs are ok).
 - ❑ Cannot provide goods and services to the general public.



501(c)(4) Social Welfare Organizations

- ▶ 501(c)(4) organizations must be operated to further the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements).

- ▶ Activities that do not further social welfare purposes, and thus may jeopardize an organization's tax-exempt status if they become the organization's primary activities, include:
 - ❑ Social Activity
 - ❑ Certain political activity
 - ❑ Operating for the benefit of private individuals
 - ❑ Business activity



501(c)(4) & 501(c)(7)

- ❑ Organizations that meet the criteria of a 501(c)(4) or 501(c)(7) organization do not need to formally apply to the IRS for tax-exempt status. They are deemed to be tax-exempt. Such organizations may wish to apply for tax-exempt status in order to confirm such status.
 - ❑ NEW beginning in 2016 501(c)(4) entities are required to notify the IRS of their intent to operate as a 501(c)(4) via Form 8976
- ❑ Social welfare organizations and social clubs may not be required to file Massachusetts tax-exempt returns, but may be required to file Massachusetts income tax returns if the organization has taxable income.
- ❑ These organizations are still required to file annual IRS tax returns, Form 990-N, 990, or 990-EZ



501(c)(3) Nonprofit Organizations

- ❑ 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.
- ❑ May accept charitable contributions
- ❑ May not engage in political activities or lobbying activities.



501(c)(3) Nonprofit Organizations

- ❑ Organizations with annual gross receipts less than \$5,000 that meet the criteria of a 501(c)(3) organization do not need to formally apply to the IRS for tax-exempt status. They are deemed to be tax-exempt. Such organizations may wish to apply for tax-exempt status if they intent to collect charitable contributions. **These organizations are still required to file annual tax returns, Form 990-N.**
- ❑ Organizations with annual gross receipts \$5,000 or greater that meet the criteria of a 501(c)(3) organization must formally apply for tax-exempt status from the IRS. Guidance for applying for tax-exempt status can be found at www.IRS.gov .
- ❑ Organizations may need to register with the state of MA and file Massachusetts Form PC



IRS Tax Reporting

- ❑ Gross receipts \$50,000 or less
 - ▶ Form 990-N (e-postcard)

- ❑ Gross receipts less than \$200,000 AND total assets less than \$200,000
 - ▶ Form 990-EZ

- ❑ Gross receipts \$200,000 or more AND total assets \$200,000 or more
 - ▶ Form 990

- ❑ Private Foundation, all sizes
 - ▶ Form 990-PF



Resources

- ❑ <https://www.irs.gov/charities-non-profits>
- ❑ <http://www.mass.gov/ago/doing-business-in-massachusetts/public-charities-or-not-for-profits/>
- ❑ Student organizations can consider asking alumni for tax preparer references

