

**TAX-EXEMPT ORGANIZATION WORKSHOP
QUESTIONS AND ANSWERS**

- 1. Beginning with tax years ending on or after December 31, 2007, every Club must file an annual information form with the Internal Revenue Service regardless of the amount of gross receipts or income generated by the Club. The amount of gross receipts determine the specific type of form to file.**

Answer: All revenue that goes through the Club's account should be calculated. This includes dues, revenues from fundraising activities, donations, purchase of goody bag revenues, funds for social events, etc. The only way funds are not counted toward that threshold are if they are not payable to the Club, but instead to an individual member. For example, if there is a social event and funds are collected for that event, those checks could be made payable to the individual in charge of that event, in which case they would not constitute revenue of the Club.

- 2. If a Club sells items over its website, must it collect sales tax on the items sold?**

Answer: If the Club is based in Texas and the goods are shipped from Texas, you must collect sales tax on the items sold. The only exception to this are the two tax-free days each calendar year that most Clubs use for Boutique weekend.

- 3. Must a local Club obtain both Board and Member approval for year end donations?**

Answer: You should review your Bylaws for your local Club and if there is no specific reserve power to the members with respect to approving year end donations, approval by the Board should be adequate.

- 4. How long must you keep scholarship records for IRS purposes?**

Answer: Six years.

- 5. If members of student organizations travel to a local Club to make a presentation or present a program, is it permissible for the local Club to cover their travel expenses?**

Answer: Yes, the Club should follow the IRS rules on reimbursement for mileage, which currently is 58.5 cents per mile.

- 6. Is it permissible for a local Club to have a drawing at a meeting at which students of Aggie Moms present receive \$50 Aggie Bucks?**

Answer: No, for several reasons, this is inadvisable. The drawing would be limited to Club Members' students and the Club Member must be present to win. This is clearly inconsistent with the community benefit and charitable purpose of 501(c)(3) entities. In addition, there is an annual limit of \$25 per gift that would then subject the student recipient of the \$50 Aggie Bucks to a gift tax obligation.

7. If you have the same facts as in the preceding item, but instead of the funds coming from revenues of the Club, those present put money in a hat for the drawing, is this permissible?

Answer: Perhaps, but once again, if it is for \$50 Aggie Bucks, then the recipient student would also have a gift tax obligation on the amount of gift over \$25.

8. Is it permissible to do book awards by means of a drawing at a Club meeting if you advertise in the paper that such drawing will occur, have a phone number where someone could make contact to ask that their child's name be put in the hat for drawing, there is no obligation to be present to win and the proceeds of the book grant are given to the MSC Bookstore to be utilized by the winner?

Answer: This should be permissible because it is not limited to Aggie Moms of the Club who are present at a meeting and the drawing was publicized to the community at large. Once again, if the gift is over \$25, it will be subject to gift tax by the recipient. If the book award is over \$600, there would be a need to provide the recipient with a Form 1099.

9. What is the difference between a raffle and a drawing?

Answer: A raffle is a situation in which individuals purchase a chance to win. The purchase of the chance is not tax deductible to the person purchasing the chance. An entity may have two raffles per calendar year without complying with all of the laws regulating raffles. In a drawing, there is no purchase of chance, simply a drawing in which someone is awarded a prize.

10. What rules apply with respect to scholarship applications?

Answer: Each Club should establish specific criteria and an application that is available on its web page. The Club must also advertise the availability of its scholarship in a newspaper on its website to an audience broader than its own Club membership, once again to meet the community benefit and charitable purpose requirements of 501(c)(3) entities.

11. Are silent auction items subject to sales tax?

Answer: Yes, that is why it is advisable to do silent auctions on the two annual tax-free days.

12. Can outside vendors be invited to a Club meeting to promote the sale of their goods without having the Club being engaged in unrelated business that could jeopardize its tax-exempt status?

Answer: This is inadvisable. If someone like Benjamin Knox comes to speak at a Club meeting, then following the meeting has his artwork available for sale, the sale should occur after the meeting has officially adjourned.

13. Is it permissible for a Club to send graduation cards and birthday cards to Club Member's students?

Answer: Yes.

14. If you sell tickets to attend an event and the event includes a meal, what part of the sale of that ticket is a charitable donation?

Answer: For example, if there is an event and you sell a ticket for \$50 and the meal component of that \$50 is \$22, the charitable donation is \$28.