



501(c)(3) Organizations: Fundraising, the IRS, and State Law

Information for clubs located in the United States

Soroptimist International of the Americas, Inc. is a 501(c)(3) organization. Soroptimist clubs which submit appropriate documentation to headquarters, and subsequently receive confirmation from headquarters, are included in the group exemption granted by the IRS. Inclusion in the group exemption enables the club to also exist as a 501(c)(3) organization. If a club does not submit the documents required for 501(c)(3) status to headquarters and has not obtained tax exempt status individually from the IRS, then that club is operating without approved IRS tax exempt status.

Incorporation, Tax Status and the Club EIN (Employer Identification Number)

Clubs frequently confuse incorporation, tax status and the significance of EIN numbers. They are separate issues.

Incorporation is acquired through the state. There are different rules, registration fees and sometimes special filing requirements for nonprofit organizations. From the Federation's standpoint, a club may or may not choose to be incorporated. Incorporation is not required to be a Soroptimist club, and it depends on your particular state and the kinds of work the club does. Headquarters cannot advise you about this matter as it is impossible to keep up with the laws of 50 different states and the activities of all clubs. If a club is incorporated, the club may be required to file some paperwork and submit a fee with the state annually or every few years. Please consult an attorney who specializes in nonprofit law in your state if assistance is needed to determine whether or not the club is incorporated or should be incorporated.

Tax exempt status is determined for the federal level by the IRS. There are some state rules that apply to certain types of nonprofit organizations as determined by the IRS. Once the club has received a determination letter from the IRS or has been included in SIA's group exemption, the club will need to file annually with the IRS either a 990EZ or a 990-N *Electronic Notice (e-Postcard)*. Visit www.irs.gov and go to the Charities & Nonprofits section for up to date information about filing these returns. If you need help, consult a firm that specializes in nonprofit accounting. SIA files Form 990 for the federation only and does *not* file a consolidated set of financials that includes any clubs or regions. Headquarters does not advise clubs on filing returns or complete any club or region paperwork.

Every club in the United States should have its own EIN (employer identification number). This number should be on file with headquarters. An EIN number is the IRS identification number and is needed to open bank accounts in the club name. It is similar to an individual's social security number. It is unique and only the entity that owns the number may use it. Do not use the EIN of the federation, region, or another club.

Purpose and Operation

Each club shall be formed exclusively for charitable, scientific, literary, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, or the corresponding provision of any future United States Internal Revenue Law (the "Code"), particularly to:

- a. Promote the advancement of women through volunteer service to the community;
- b. Serve as a global voice on issues of important to women; and
- c. Engage in any other lawful activities that further the exempt purpose of the club.

No part of the net earnings of any club shall inure to the benefit of, or be distributable to, its directors, officers, members, or other private persons, except that each club shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of its exempt purposes. Except as otherwise provided by Section 501 (h) of the Code, no substantial part of the activities of any club shall consist of carrying on propaganda, or otherwise attempting, to influence legislation. No club shall 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.

Notwithstanding any other provision of these articles, no club shall carry on any activities not permitted to be carried on (a) by an organization exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code, or (b) by an organization contributions to which are deductible under Section 170(a) of the Code as being to an organization referred to in Section 170(c)(2) of the Code. Each club shall be nonprofit, noncommercial, nonsectarian, and nonpolitical.

Tax Deductible Contributions

One of the most notable benefits to being recognized as a 501(c)(3) organization is the ability to receive tax deductible contributions from the public and corporations. Members may, most likely, deduct dues and contributions to the club and SIA. (There are certain caveats that apply and members should know the limits of the law and how they apply to each particular situation. Consult a tax advisor for clarification, if necessary). If the club is furthering the Soroptimist mission and purpose, adhering to the Soroptimist laws, and filing the appropriate paperwork, the 501(c)(3) designation is a very beneficial one to the club and members and should not cause any changes or modifications in club operations or projects.

State Charitable Registration to Solicit Contributions

Soroptimist International of the Americas, Inc. is registered as a charitable organization in every state where required. Although a Soroptimist club in the United States is a 501(c)(3) organization under SIA's group exemption (which is a federal designation under the IRS), SIA's state registrations *do not* include Soroptimist clubs.

Each Soroptimist club may be required to register as a charitable organization in their state of residence and in any state where they plan to solicit donations. Registration is required before any solicitations occur. Registration may entail an initial and annual fee and annual reporting requirements. Failure to register may result in the club being fined by the state(s). Clubs should be aware of, and abide by, state charitable solicitation and registration laws. Information is available on the website of the state's attorney general.

Receipts for Donations

Since Soroptimist International of the Americas has been granted 501(c)(3) status, and US clubs are eligible for inclusion in the group exemption, individuals may make tax deductible donations to (c)(3) clubs, as well as to SIA. All donations should be acknowledged. Receipts **MUST** be issued for donations greater than \$250. SIA, a club or a region should not give individual tax advice, but as of the date that a club is included in the group exemption, members who itemize deductions may include the SI and SIA portion of their dues as a charitable donation. Region and club dues may also be deductible if nothing of substantial value is received in return. Hence, if dues payments include meal assessments, the portion attributed to cost of meals would not be deductible. Members should always be instructed to consult their own tax advisors.

IRS Publication 1771, *Charitable Contributions—Substantiation and Disclosure Requirements*, explains the federal tax law for charities that receive tax-deductible contributions and for taxpayers who make contributions.

There are two general rules that clubs need to be aware of to meet substantiation and disclosure requirements for federal income tax return reporting purposes:

1. A donor is responsible for obtaining **written acknowledgement** from a charity for any single contribution of \$250 or more before the donor can claim a charitable contribution on his/her federal income tax return
2. A charitable organization is required to provide a **written disclosure** to a donor who receives goods or services in exchange for a single payment in excess of \$75.

For more information, refer to IRS Publication 1771 , which can be found on the IRS website at www.irs.gov.

The most important guideline to remember is to honestly represent to donors how their donation will be used. If a club is a 501(c)(3), as most US clubs have elected to be under SIA's group exemption, then donations are generally tax deductible for the donor, less any tangible benefit received. (For example, \$100 ticket to a fundraiser, less \$25 for the cost of dinner would be \$75 deductible).

Contributions to Soroptimist International

Please note that United States donors are not entitled to receive a charitable contribution deduction for federal income tax purposes for gifts to Soroptimist International because Soroptimist International is not formed under United States law.

It is improper for SIA and/or Soroptimist clubs to provide donors a tax receipt for a contribution to Soroptimist International. Doing so could subject SIA (and the clubs) to a

penalty or, if done with intentional disregard of federal income tax law, could lead to 501(c)(3) revocation.

Dissolution

Upon the dissolution of any club, its governing body shall, after paying or making provisions for the payment of all the liabilities of the club, dispose of all the assets of the club exclusively for the exempt purposes of the club in such manner, or to such organization or organizations organized and operated exclusively for charitable, scientific, literary, or educational purposes which at the time qualify as exempt organization or organizations under Section 501(c)(3) of the Code, as the club's governing body shall determine. Any assets not so distributed shall be distributed by a court of competent jurisdiction of the county in which the club's principal office is then located exclusively for the club's exempt purposes. The use of any surplus funds or private inurement to any person in the event of a sale of the assets or dissolution of the corporation is expressly prohibited.

Advocacy and Lobbying

Please refer to the "Frequently Asked Questions about Advocacy" found on our website at http://www.soroptimist.org/members/program/Program_Advocacy.html.

General Fund and Service Fund

Soroptimist's bylaws no longer dictate that all funds raised from the public must go only into a club's service fund. Clubs are expected, however, to remember that they are organized for charitable purpose and that the major portion of the income realized from fund-raisers should be spent to provide service in alignment with the Soroptimist mission. It is important that club dues are sufficient to cover general operating expenses. Clubs that choose to use some of the profits of their fund-raising efforts to fund Soroptimist education such as delegates' expenses must include the following type of language in their advertisement and marketing of the events: "Proceeds of this event/fund-raising activity will go to Soroptimist International of Anytown, which contributes to projects such as shelters for domestic violence victims, Women's Opportunity Awards, and ..." Don't use language like "all proceeds go to charity" or "all proceeds will benefit a camp for children with disabilities" unless it is absolutely true.

There is no requirement to keep service funds segregated, but a club must be able to document how funds donated for specific projects are spent if those funds were earmarked by the donors for specific purposes. Clubs should establish one budget which accurately reflects mission and activity. Therefore, accurate estimates of revenue and expenses (which will not exceed revenue) should be projected. Clubs should ensure that their financial activity supports the goals of a charitable organization.