

Federal Income Tax Issues for Exempt Organizations

There are over 44,000 exempt organizations in Michigan alone. For lots of reasons, the Internal Revenue Service has lost track of many of them.

Some of these organizations are very small and have never had to file a tax return because they never reached the \$25,000 gross receipts filing threshold.

Some of the organizations have filed every year. However, before the computer age, it took thousands of IRS employees to enter the updated data. That produced no revenue and was put low on the priority list.

Due to the tremendous growth in the exempt sector, the Internal Revenue Service has become very concerned because many of the organizations may not qualify for exempt status. Some of them may not be operating in accordance with the reasons stated when they applied for tax exempt status. Some of them may have become fronts for taxable organizations.

In an effort to better police these organizations, the Internal Revenue Service is making substantial changes in reporting requirements of all exempt organizations.

There will be a new form 990-N for the very small organizations. The form should be very simple and easy to prepare. In order to keep the process simple for the Internal Revenue Service, the form will be only available on the internet and must be filed electronically. The form will require the following information

- Organization's legal name
- Any other names the organization uses
- Organization's mailing address
- Organization's website address if applicable
- Organization's employer identification number
- Name and address of a principal officer of the organization
- Organizations annual tax period
- Verify that the organization's annual gross receipts are still normally \$25,000 or less
- Indicate if the organization has terminated and is no longer in business

The internet address to file the 990-N is **www.epostcard.form990.org**.

Most of the answers are obvious; however there are a few items that need clarification. The question relative to "other names" refers to supported Lioness Clubs and Leo Clubs. Lioness Clubs and Leo Clubs do not exist on their own. They are a part of the sponsoring Lions Club for tax purposes and should be listed in this section. On the other hand, if a club has created a separate charity or foundation as a 501(c)3 entity, that entity name is not listed on this form. That entity is separate and must file its own 990-N if their gross receipts are under \$25,000.

The other item that needs clarification is the "annual tax period." For income tax purposes, every Lions Club has a fiscal year that begins on July 1 and ends on June 30. If you were filing the form for the year that began on July 1, 2007 and ends on June 30, 2008, your club would file on 2007 forms. You always look at the beginning date to determine the form that you use.

There are also major changes on the forms for Lions Clubs that have gross receipts in excess of \$25,000. Those clubs must file either a 990 or a 990-EZ. The changes were going to appear on the 2007 forms. However, due to numerous complaints during the comment period, the changes will not appear until the 2008 forms are filed. Again for Lions Clubs, the current year began on July 1, 2007 and ends on June 30, 2008. Those clubs will file the 990-N or the 990 or the 990-EZ return on 2007 forms that are due by November 15, 2008. The enhanced reporting on the new forms will be for the year that begins on July 1, 2008 and ends on June 30, 2009. The enhanced 990 and 990EZ form for 2008 will not be due until November 15, 2009.

The Internal Revenue Service also changed the requirements as to which form the club must file. Smaller organizations will have the option to file form 990-EZ if it meets both requirements under the following circumstances for years beginning on July 1:

May file 990-EZ for:	If gross receipts are:	If assets are:
2007 tax year due 11/15/08	Between \$25,000 and \$100,000	
2008 tax year due 11/15/09	Between \$25,000 and \$1 million	Less than \$2.5 million
2009 tax year due 11/15/10	Between \$25,000 and \$500,000	Less than \$1.25 million
2010 and later	Between \$50,000 and \$200,000	Less than \$500,000

Based upon the above chart, if a clubs gross receipts fall below the minimum gross receipts for the year in question, that club can file the 990-N. If a club has revenues or assets in excess of the stated amounts, the club must file a form 990.

What happens if a club fails to file a form 990-N, 990-EZ or 990? For the smaller clubs that are eligible to file only the 990-N, the failure to file will result in the revocation of its tax exempt status. If it sponsors a Lioness Club or Leo Club, that club also loses its exempt status. If a club should file a 990-EZ or a 990, the penalty is \$20.00 per day. If a club forgets to file and finally files one year late the penalty would be \$7,300.

What constitutes “gross receipts”? Gross receipts is the total amount of money brought in by your club. The chart shown below indicates that the Lions Club had income of \$22,475. However, the Gross receipts before expenses totaled \$29,075. You will also note that the Lions Club sponsors a Lioness Club and a Leo Club. The Lions Club MUST combine the income and expenses of all three clubs when it files its tax returns. Because the gross receipts are in excess of \$25,000, the Any Town Lions Club must file form 990-EZ.

Any Town Lions Club

Year End Summary 7/1/2006 to 6/30/2007

		Lions	Lioness	Leo
	Total	Club	Club	Club
Dues collected	3,850	3,000	700	150
White Cane	5,200	3,500	1,200	500
Tail Twister	725	550	125	50
CSFII pass through donations	2,300	1,200	800	300
50/50 raffle gross receipts	8,000	6,000	2,000	
50/50 raffle prizes	(4,000)	(3,000)	(1,000)	
Festival receipts	9,000	4,500	3,000	1,500
Festival costs	(2,600)	(1,500)	(800)	(300)
Total	\$ 22,475	14,250	6,025	2,200
Gross Receipts (before costs)	\$ 29,075	18,750	7,825	2,500

All along, I have been talking about Lions Clubs. Lions Districts fall under the same rules and limitations. If a Lions District also has a Lioness District, the Lioness District revenue and expenses would be included in the Lions District tax filings.

What other changes have been made that could affect Lions Clubs? The new 990 form for 2008 has added many questions that must be answered. The questions include such things as:

- Does the organization have a written conflict of interest policy?
- Does the organization have a written whistle-blower policy?
- Does the organization have a written document retention and destruction policy?

While these questions only appear on the 990 form, they show the concern the Internal Revenue has regarding good governance of the exempt organization.

The conflict of interest policy is very important because exempt organizations do not exist for the good of its members. It exists for the good of the public. A conflict of interest policy does not mean that the Club cannot have a member's food service company catering the meals for the club, but it does require that the board of directors be aware of the conflict.

On the other hand, the conflict of interest policy should address the rental of the Lions Den to a member for a party or the granting of a scholarship or other benefits to a member or his/her family. Clubs must be very careful when using public money for member benefits. The Internal Revenue Service can revoke the exempt status of an organization that provides benefits to its members. Lions Clubs International policy that applies to all clubs states that money that comes from the public goes to the public. Member benefits must come from dues or other member revenue.

The whistle-blower policy does not have a very big impact on Lions Clubs because most clubs do not have employees. However, having the policy in place for members or employees can carry a positive image for your club. It says that our club does not have any ghosts in the closet.

The written documents policy gives guidance to the secretary and the treasurer and puts a time limit on the accumulation of documents. Documents such as bank statements, check stubs and other financial records must be kept for a minimum of 5 years. Payroll records should be kept for 7 years. Board of Director minutes should be kept forever while committee meeting minutes may only be needed for 5 years.

It is important to remember that the 990-N, the 990-EZ and the 990 are considered public documents. Anyone can request a copy of the form that the club filed. The club **MUST** comply with the request. In addition, copies of the forms are available on numerous websites. Probably the most popular is www.guidestar.org. The club will not know who is looking at its tax returns.

A poorly prepared return can give a club a bad image that could affect donations. A well prepared return shows a strong organization with a strong Board of Directors. Great detail can be provided in a section on Program Service Accomplishments that can tell the public about the wonderful accomplishments of the club.

Lions Clubs have time to comply with the spirit of the changes because of our fiscal year that begins on July 1. Why not start today to prepare for the changes of tomorrow?