Why WISD is Requiring 501(c)(3) Exempt Status:

Waco ISD is requiring all parent organizations to be 501(c)(3) exempt by the end of school year 2012-2013 for the following reasons:

A. Safeguarding the contributions of donors

1) A section 501(c)(3) organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests. No part of the net earnings of a public section 501(c)(3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.

2) A 501(c)(3) organization is required to indicate on their application (Form 1023) how funds raised or contributions received by a booster club will be used and the IRS grants the organization their public 501(c)(3) tax-exempt status based on this information. Once exempt status is approved, funds may be used only for those purposes indicated in the Form 1023 document.

If funds are used for purposes not indicated in the Form 1023 document, the organization may lose its exempt status.

3) A 501c3 exempt organization must permanently dedicate its assets to an exempt purpose. That means that when the organization dissolves, its assets must be distributed for an exempt purpose, to the federal government, or to a state or local government (such as schools or school clubs) for a public purpose.

B. Accountability

To be a 501(c)(3), an organization must meet the following requirements:

1) formulating organizing documents which meets the requirements of 501(c)(3); and
2) filing an annual information return to the IRS (Form 990-N(e-postcard), 990-EZ or Form 990). To file a return, an organization would have to have some form of accounting or bookkeeping procedures in place.

C. Transparency

A 501(c)(3) organization is also required to make their annual return and application (Form 1023) available for three years for public inspection and copying. The IRS also makes this information publicly available.

D. Consistency –

By requiring all of the parent organizations to be public 501(c)(3) tax-exempt entities, the public would know that donations/contributions would be eligible for tax deductions on their
returns. When an individual or organization makes a contribution to a school, a school club, or a parent organization related to a school function, they expect that their contribution would be tax deductible.

According to Publication 551, Chapter 3, donors cannot deduct any charitable contribution to an organization that is required to apply for recognition of exemption but has not done so. By requiring all organizations to file an application to be public 501(c)(3) tax-exempt entities, the parent organizations would be shown on the IRS exempt organization list so donors can have assurance that their donations are tax deductible and that the organization receiving the funds have some level of accountability and transparency.