

Questions and Answers

The following are some questions that we received from parents and patrons. Our responses are printed in blue.

1. Parent: What are the benefits of becoming a 501(c)(3) organization?

Response: Organizations that are 501(c)(3) exempt entities enjoy the following benefits:

- These organizations do not pay federal income tax except on income derived from unrelated business income.
- Being 501(c)(3) exempt makes the organization eligible for sales tax and franchise tax exemptions. However, these organizations must separately apply for these exemptions from the Comptroller of Public Accounts.
- Donors can receive tax deduction for their contributions.
- The organizations become eligible for private foundation grants. Private foundations are required by law to distribute a minimum amount of money for charitable purposes. One way they fulfill this obligation is by making grants to 501(c)(3) public charities.
- These organizations may be eligible for lower postal rates through the US Postal Service. Please refer to Publication 417 for further details: <http://pe.usps.com/text/pub417/welcome.htm>

2. Parent: Why are we required to have an EIN?

Response: The IRS requires a parent organization to have its own EIN (employer identification number) because parent organizations are separate entities from the district. The District's EIN cannot be used by these organizations. In addition, an individual's social security number should not be used since income earned by the parent group could become that individual's reportable income. To set up a bank account, a parent organization must use its own EIN.

3. Parent: Why is Waco ISD requiring us to be public 501(c)(3) tax-exempt organizations?

Waco ISD is requiring all parent organizations to be public 501(c)(3) tax-exempt organizations by the end of the 2012-13 school year for the following reasons:

- A. For a parent organization to assure donors that contributions are eligible for tax deductible contributions, a parent organization must submit an application for tax-exempt status as a public 501(c)(3) organization using Form 1023. When the IRS approves the organization's tax-exempt status, a Determination Letter is used to document this status. In addition, the organization's name is added to the list of charitable organizations on the IRS' website.

Most individuals and businesses want either a copy of the Determination Letter or the ability to confirm the tax-exempt status of the organization by viewing the IRS' website before contributions / donations are made.

By requiring all parent organizations to become public 501(c)(3) organizations, the public will not be confused as to whether tax-deductible contributions can be made. The public generally assumes that these groups receive tax-deductible contributions. If a group cannot receive tax-deductible contributions, the public perception of that group and other groups related to the District could be harmed and results in decreased contributions. For example, if some organizations portray themselves as tax-exempt organizations when they are not, an array of potential problems and credibility issues may arise.

- B. 501(c)(3) organizations are required to file annual returns to the IRS. Due to the need to complete these returns, the organizations would have to account for their activities, consequently requiring the organization to have some accountability to the IRS as well as to their members.
- C. Since the activities of the parent organizations reflect on the schools and the District, it would benefit the District to have these organizations officially established as public 501(c)(3) tax-exempt organizations and following the IRS rules and reporting requirements. By knowing that these organizations are accountable in some manner, members and the public would have some assurance that the money raised is for the benefit of the students and that the money is used properly.

For more on this topic, please refer to [Why WISD is Requiring 501\(c\)\(3\) Exempt Status.](#)

- 4. Parent: I find it a little troubling that we will require all parent organizations to apply for recognition by the IRS of exempt status under section 501(c)(3) of the Code. Y'all would know better, but is my understanding that small, voluntary organizations with no employees and budgets of less than \$5,000 aren't even encouraged to apply by the IRS itself.

Response: It is true that not all* organizations with average gross receipts of less than \$5,000 are not required to file Form 1023 the (Application for Exemption under section 501(c)(3)). However, it is not true that the IRS does not encourage it. This was verified by conversations with the IRS concerning this particular question.

In addition, the organization would not be listed as being a tax-exempt organization on the IRS website. By filing the application (Form 1023), the IRS officially recognizes the organization as tax-exempt and issues a Determination Letter that is also used for documentation of the exempt status.

*Note that for fiscal years beginning after 1/1/2007, small tax-exempt organizations whose annual gross receipts are normally \$50,000 or less (\$25,000 for tax years ending after December 31, 2007 and before December 31, 2010) are required to electronically submit Form 990-N, also known as the *e-Postcard*, unless they choose to file a complete Form 990 or Form 990-EZ instead.

If the organization does not file a 990N(*e-Postcard*), Forms 990 or 990-EZ for three consecutive years, it will automatically lose its tax-exempt status. The automatic revocation of exemption is effective as of the due date of the third required annual filing or notice.

Consequently, the automatic revocation requires that in order for an organization, of any size, to have exempt status, it would have to file a Form 1023.

Also, in the case of an organization that has been in existence for at least 3 years, if the total gross receipts received by the organization during the immediately preceding 2 years, plus the current year, are more than \$15,000 then the organization must file a Form 1023 within 90 days after the end of the period in which the amounts are exceeded.

- 5. Parent: I worry that the filing costs (\$400 or \$850 depending on budget size; \$1,000 if it will provide scholarships) will be viewed as prohibitive by smaller groups.

Response:

A. The filing cost would be \$400 if the gross receipts are less than \$5,000. The filing cost would be offset by the benefit of not having to pay tax on the net income. Also, donors would have more incentive to donate if they know their contributions are tax deductible. Tax savings could be potentially 15 to 35%. Since the filing fee of \$400 is a one-time fee, the cumulative tax savings over a period of years would far outweigh the original cost.

B. Alternatives:

1. An option would be for a smaller organization to be included in a bigger organization's group exemption. In that case, the smaller organization would still need its own EIN, would have to file for its own franchise and sales tax exemptions, would need to have its own organizing documents and may even have to file its own returns (depending on whether the parent group decides to include their information on their group return or not). However, the smaller organization would not need to file a Form 1023.

2. Another option would be for the small organization to actually merge with another parent organization with similar interests.

3. Instead of forming a parent organization, an alternative would be for the parents to assist the students or program by donating their time and assist in the fundraisers held by the students. A parent organization would not need to exist in order for a parent to assist a student or school program.

6. Parent: In addition, I am a little unsure of how the District has the legal authority to require everything that it is asking. For example, why does the District get to decide how a family can raise money to help cover an unexpected medical expense, just because their child happens to be a WISD student?

Response: These requirements are imposed by the relevant governmental agencies, not the district. Moreover, the activities of these organizations impact the District and the public perception is that the district has some responsibilities concerning these groups.

Since parent organizations are tax-exempt (public charities), these organizations cannot benefit individuals but only the groups as a whole. If a parent is raising funds for an individual, it must do so outside of the exempt organization. Money raised for an individual is not tax deductible for income tax purposes. In addition, the district cannot be involved in this fundraising in any way because campus activity funds are considered district funds and are prohibited from being used to purchase gifts (Article III, Section 51 and Section 52a of the Texas constitution.)

7. Parent: Likewise, if a group of parents want to join together for the purpose of helping a particular school, club, or program, why would the District necessarily have jurisdiction over that? *If that parent group holds meetings at the school, conducts fundraisers at the school, advertises at the school, etc, then I can understand.* But if the "Friends of UHS Soccer" want to have a car wash and a donation bucket at Skinny's in order to gift a new goal to the school, why would the District have the right to require it to apply for a Federal Employment Identification Number and file tax returns?

Response: The fact that UHS is mentioned in “Friends of UHS Soccer” does link the district into this organization. Public perception would be that there is accountability by the District. This perception assumes that there are procedures in place to ensure monies are used in the manner for which they were portrayed to be used, which is important to donors.

Secondly, the IRS, not the District, requires the EIN and the filing of tax returns.

If a group of parents raised money for a group of students without meeting the requirements of Section 501(c)(3), the money raised could be income subject to federal income tax and possibly self-employment and even sales tax depending on the specific circumstance. No donations would be considered as tax deductible in these situations and the parents raising the money are required to file applicable tax returns.

These parents would then be responsible for reporting the income on their returns (Form 1040, a Form 1065 (which flows into the individual’s Schedule E) or a Form 1120, whichever is applicable.) All of which are more complicated than a 990N, which is the information return to be filed by organizations with gross receipts of \$50,000 or less. Form 990N(*e-Postcard*) is very easy to file and is done online. It requires answers to only the following eight questions:

1. EIN
2. Tax year
3. Legal name and mailing address
4. Any other name the organization uses
5. Name and address of a principal officer
6. Website address if the organization has one
7. Confirmation that the organization’s annual gross receipts are \$50,000 or less for tax years ending on or after December 31, 2010,
8. If applicable, a statement that the organization has terminated or is terminating (going out of business)