

Nonprofit status

If the chapter has gross receipts totaling **less than \$5,000 per year**, the IRS assumes the organization does not exist for profit and therefore the chapter does not need to file for non-profit status. "Gross receipts" means the total amount of income your nonprofit receives from all sources during its annual accounting period, without subtracting any costs or expenses. **However, if the organization's profits exceed this \$5,000 threshold, it must file an application within 90 days of the end of the tax year in which it exceeds this threshold** or be subject to corporate income taxes on funds remaining in its treasury at year-end.

Chapters have the option of filing for nonprofit status under either of the two following sections of the Internal Revenue Code:

- **Section 501 (c)(3):** If filed under this section, the chapter presents itself as a non-political non-profit organization formed for a religious, charitable, scientific, testing for public safety, literary, or educational purpose, where no part of the net earnings inures to the benefit of any private shareholder or individual. If the chapter qualifies under this section, the individuals' dues, contributions and other expenses **are deductible** on their individual tax returns. The appropriate IRS form used to apply for Section 501(c)(3) status is Form 1023, which can be found here: <http://www.irs.gov/pub/irs-pdf/f1023i.pdf>
- **Section 501 (c)(6):** If filed under this section, the chapter presents itself as a nonprofit Business League, chamber of commerce, real-estate board, or board of trade, where no part of the net earnings inures to the benefit of any private shareholder or individual. If the chapter qualifies under this section, the individuals' dues, contributions and other expenses **are not deductible** on their individual tax returns. The appropriate IRS form used to apply for 501(c)(6) status is Form 1024, which can be found here: <http://www.irs.gov/pub/irs-pdf/f1024.pdf>

Forms 1023 and 1024 are both entitled "Application for Recognition of Exemption". Both applications require the following documentation:

- A copy of the chapter's Articles of Incorporation or Constitution;
- A copy of the chapter's bylaws;
- A statement of receipts (Income) and expenditures (Expenses) [financial statements for the current year – must include period up to within 60 days of the date the application is filed and the 3 preceding years];
- A balance sheet for the current year;
- The chapter's Employer Identification Number (if your chapter does not have an EIN, you will need to complete Form SS-4, Application for Employer Identification Number, which can be found here: <http://www.irs.gov/pub/irs-pdf/fss4.pdf>);
- A description of the chapter's purpose and activities; and
- A User Fee based on average annual gross receipts.

Organizations that complete and submit the application will receive an acknowledgement from the IRS. A ruling or determination letter will be issued to your organization if its application and supporting documents meet the requirements of the section under which it is claiming exemption.

Once nonprofit status is confirmed, the chapter will be required to file annual information returns.

For detailed information on nonprofit status, consult IRS Publication 557, Tax-Exempt Status for Your Organization, which can be found at: <http://www.irs.gov/pub/irs-pdf/p557.pdf>. This publication and other IRS forms are available on the IRS website or can be ordered via telephone.

In addition to its federal application, the chapter will be likely required to file for nonprofit status with its respective state government.

Accounting methods such as those proposed under the Model Accounting System in this part of the manual will make filing for nonprofit status relatively simple. The problems faced by many chapters in filing with the IRS are typically a result of poor accounting practices.

WHEN TO FILE: Most organizations must file this application by the end of the 27th month after the organization was legally formed.

Formation date: A corporation is legally formed when its Articles of Incorporation are filed with the state; an unincorporated association is legally formed when its organizing document is adopted by the signature of at least two individuals.