

Organize Your League as a Business

Advantages of Incorporating and Gaining Tax Exempt
Status

Dana Gray
SLUA

Treat your league as a business.

1. You need a bank account
2. Share responsibilities
3. Avoid liabilities
4. Interaction with the IRS
5. Interaction with the State
6. Making a profit
7. Board of Directors
8. Membership or Nonmembership
9. Articles of Incorporation / Bylaws
10. 501(c) Organizations
11. Ongoing Requirements
12. Resources

1. Banking

- You need a checking account. To do so you will need to have your business name registered with the State. The bank will also require a tax ID# (SS# or EIN) and two forms of identification for any signers on the account.

2. Share Responsibilities

- You want others to help manage elements of your organization, so you need a business structure. A corporate structure provides for a Board of Directors, who are responsible for directing and managing the affairs of the corporation.

3. Avoid Liabilities

- The federal 'Volunteer Protection Act' provides protection against suit for volunteers. Volunteers includes persons performing services for a non-profit organization, including volunteers serving as a director, officer, trustee, or direct service volunteer. By gaining non-profit status you will afford volunteers statutory protection.

4. Interaction with the IRS

a. File for Federal tax exemption 501(c)

Forms required:

- IRS form 1023, Application for Recognition of Exemption under Section 501(c)(3)
- IRS form 1024, Application for Recognition of Exemption under Section 501(a)
- IRS form 8718, determination of the user fee

b. Required Inclusions:

- Federal employer identification number (EIN), whether or not you have employees
- Organizing documents - Articles of Incorporation and Certificate of Incorporation (if available)
- Bylaws - if your organization has adopted bylaws, include a copy

c. Description of activities

- Your application must include a full description of the purposes and activities of your organization.

d. Financial Data:

- You must include in your application financial statements showing your receipts and expenditures for the current year and 3 preceding years (or the number of years your organization was in existence, if less than 4 years).

5. Interaction with the State

Federal non-profit organizations can avoid paying state income tax, property tax, sales and use tax.

- a. Apply for State Corporate Income Tax Exemption - these forms are different for each state, but generally you apply through the Department of Revenue.
- b. Apply for State Sales Tax Exemption - with this designation you are exempt from sales tax on any of your organizations purchases (food, discs, books, trophies, etc.) Alcohol is not included in the exemption. You also do not have to collect and pay sales tax when you sell discs or instructional materials.

6. Nonprofit Corporations Can Make A Profit

- As long as your corporation is organized and operated for a recognized nonprofit purpose, it can take in more money than it expends. Nonprofits may use its tax-free profits for operating expenses or for the benefit of the organization. It cannot distribute any of the profits for the benefit of its officers, directors, or employees (as dividends for example).

7. Choosing Board Members

- Choose wisely. You need individuals who are committed to your mission, have some business experience, are fiscally conservative and responsible. Desirable skills / professions: attorneys, accountants, web designers, programmers, business managers, event organizers, diplomats, marketing/advertising/sales executives, individuals with nonprofit experience, networking skills, those who can afford to contribute both time and money, and individuals with community contacts.

8. Choose a Membership or Nonmembership Structure

- It is optional for a nonprofit corporation to have formal members with legal voting rights. To avoid having to put elections of directors and other major corporate decisions to a vote of the members, most nonprofits choose not to have formal membership structures. Read *Robert's Rules of Order* immediately if you have a membership structure.

9. Articles of Incorporation & Bylaws

- a. Articles of Incorporation are necessary prior to filing for nonprofit status. This is your primary incorporation document. It includes the company name, registered agent, office, statement of purpose, the directors, incorporators, duration of the corporation, and membership provisions.
- b. Bylaws are not necessary for filing nonprofit status. Bylaws contain information central to the organization and operation of the corporation, they restate the most significant provisions applicable to tax-exempt nonprofit corporations, and provide practical, yet formal rules for the orderly operation of your corporation.

10. 501(c) Organizations

- a. Only 501(c)(3) organizations can offer donors a tax deduction for contributions.

(c)(3) organizations include those operated for the following purposes: Charitable, Religious, Educational, Scientific, Literary, Testing for public safety, Fostering national or international amateur sports competition, Prevention of cruelty to children or animals.

- b. 501(c)(4) organizations include those operated for civic and social welfare.

- c. 501(c)(7) organizations include those operated for pleasure and recreation (includes amateur sport clubs).

11. Ongoing Requirements

- a. Meeting Minutes
- b. Financial Records
- c. Annual State Corporate Report
- d. Tax Returns – once your nonprofit organization's annual gross receipts are more than \$25,000 you must file IRS Form 990 or 990EZ (less than \$100,000)

12. Resources

- *IRS Publication 557 Tax Exempt Status for Your Organization*
- *How to Form a Nonprofit Corporation* by Anthony Mancuso, 2005
- *Starting and Building a Nonprofit* by Peri Pakroo, 2005
- *Nonprofit Kit for Dummies*, by Stan Hutton and Frances Phillips, 2006
- *Robert's Rules Of Order* by Henry Robert

The IRS has launched an Internet-based workshop for Exempt Organizations, covering issues faced by small and mid-sized tax-exempt organizations.

The IRS workshop called **Stay Exempt Tax Basics for 501(c)(3)s**, is designed for organizations that have no tax experts on staff, nor outside advisors on tax compliance issues.

The workshop consists of five interactive modules on tax compliance topics— tax-exempt status, unrelated business income, employment issues, Form 990 and required disclosures. It should take users approximately three hours to complete the five modules. The IRS Web site does not require registration and its visitors will remain anonymous. The training program is available at <http://www.stayexempt.org>

Questions & Answers