

THE IRS AND YOU!

- Unrelated Business Income Tax
- Recordkeeping of contributions
 - Cash & non-cash items
 - Quid Pro Quo disclosures
- Public Inspection Requirements



America is the land of
opportunity.

Everybody can become a
taxpayer, even a
tax-exempt organization!

Unrelated Business Income Tax (UBIT)

- Tax exempt organizations may be liable for tax on its unrelated business income
- Organizations exempt from tax under section 501(a) or 529(a) of the Internal Revenue Code
- \$1,000 or more of gross income from an unrelated business must file Form 990-T



Unrelated Business Income

- An activity is subject to unrelated business income tax if it meets three requirements
 - Trade or Business
 - Regularly carried on
 - Not substantially related to organization purpose



Trade or Business

A trade or business generally includes any activity carried on for the production of income from selling goods or performing services.



Regularly Carried On

The activity must show a frequency and continuity, and be pursued in a manner similar to comparable commercial activities of nonexempt organizations.



Not Substantially Related To

The activity generating income does not contribute importantly to accomplishing the organization's exempt purpose (other than the need for funds).



The tax forms have been
simplified

beyond all understanding.



Activity Exceptions

- Volunteer Labor
- Convenience of members, students, patients, officers, or employees
- Qualified Sponsorship Activities
- Selling Donated Merchandise



Income Exceptions

- Dividends, interest, annuities and other investment income from ordinary & regular investments
- Royalties
- Rents from real property
- Certain income from research activities
- Gains or losses from the disposition of property



What the tax form and
instructions need

is a section which would
explain the explanations.

Exceptions to the Income Exceptions

- Income from Debt-Financed Property
- Partnership Income or Loss
- S Corporation Income or Loss
- Special rules for
 - Social Clubs
 - **Voluntary Employees' Beneficiary Associations**
 - Supplemental Unemployment Compensation Benefit Trusts
 - Group Legal Services Organizations
- Income from Controlled Organizations



A tax return is like a
girdle.

If you put the wrong
figure in it you're likely to
get pinched.



Allowable Deductions

- Must be directly connected with the conduct of an unrelated business
- Allocate expenses between exempt purpose activity and unrelated business activity

Form 990-T

- Report Unrelated Business Income
- Due annually by the 15th day of the 5th month after the end of **organization's fiscal year**
- Unrelated Business Income is taxable at the corporate rates, except exempt trusts are taxable at the trust rates
- Must be made available for public inspection
- Mail this return separate from the 990, 990-EZ or 990-PF

Recordkeeping for Charitable Contributions





Recordkeeping for Charitable Contributions

- Donors are required to have written records to be allowed a charitable deduction for any amount donated
- Effective beginning August 17, 2006

Cash & Non-cash Contributions

- Bank record or written communication from donee
- Contemporaneous written acknowledgement required for deductions of \$250 or more
- Qualified appraisal prepared for contributions over \$5,000

Contributions of Clothing & Household Items

- In 2003, deductions claimed totaled more than \$9 billion
- Good, used condition to be deductible
- Not applied to food, art objects, jewelry, collections, or items appraised



Quid Pro Quo Contributions

- Part contribution, part goods or services received by donor
- Written disclosure statement required in excess of \$75



Disclosure Statement

- Amount of deductible contribution for federal income tax purposes limited to excess over fair market value (FMV) of goods or services
- Provide a good faith estimate of the FMV of goods or services
- Use any reasonable method to estimate FMV of goods or services, as long as applied in good faith

Example: Disclosure Statement

John Donor

September 24, 2008 (contribution date)

Thank you for your \$100 contribution. This contribution is limited for federal income tax purposes to the excess contributed over the fair market value of the goods received. The fair market value of the goods you received was \$40. Your deductible contribution is \$60.

XYZ Charitable Organization

No Disclosure Statement Required

- Goods or services given have insubstantial value (Rev. Proc. 90-12 and 92-49)
- There is no donative element involved
- There is only an intangible religious benefit provided to the donor
- Donation of \$75 or less per year and receives only annual membership benefits

Penalty for Failure to Disclose

- Imposed on a charity that does not make the required disclosure of a quid pro quo contribution of more than \$75
- \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing
- Can avoid the penalty if the failure due to reasonable cause

Public Inspection Requirements



Public Inspection Requirements

- Exemption application
 - Form 1023 - Organization exempt under 501(c)(3)
 - Form 1024 - Organization exempt under most other 501(c) designations
 - Form 8871 - Political Organization exempt under 527(a)
 - Letter submitted under paragraphs for which no form is prescribed

Public Inspection Requirements

- Annual returns
 - Informational returns, Forms 990, 990-PF, 990-EZ
 - Name & address of contributors excluded
 - Business income tax return (after August 17, 2006), Form 990-T
 - U.S. Partnership Return, Form 1065
 - Form K-1s are excluded from requirements
 - Available for 3-year period



Making Forms Available

- In-person request – provide that day
- Written request – within 30 days
- May charge reasonable copying and postage costs
- Documents made widely available
 - World wide web and meet format criteria
 - Advise requesters how to access

Penalties for Failure to Disclose

- \$20 per day for as long as the failure continues
- Maximum penalty of \$10,000 for each failure to provide an annual return
- No maximum penalty for failure to provide exemption application



Our government really
takes care of us.

They even give us free
tax forms.

www.irs.gov

Thank You!

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