

## Tax Procedures for Square Dance Organizations

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Version 1.3, January, 2009

### Introduction

I am not a certified accountant. I have had experience as a treasurer and an auditor, and have filed both partnership and corporation tax returns. The following information is based on telephone calls to the IRS, consultation with my accountant and others, and my own research of the tax laws. You are welcome to seek your own advice.

Prior to 2008, tax-exempt organizations with less than \$25,000 annual income did not have to file income tax returns. (This includes most square dance clubs.) Several months ago, the Internal Revenue Service (IRS) decided that many small organizations were “falling through the cracks” and avoiding taxation by calling themselves “tax-exempt”. Around the first of 2008, the IRS set new rules that call for ALL tax-exempt organizations to file a tax return (Form 990). They set up a new process for small organizations (gross income less than \$25,000) which is an electronic filing of a new form 990-N.

I first heard about this last spring (2008) and the new publication came out in July (Publication 557- Tax Exempt Status for Your Organization). I read this and consulted with someone at the IRS and my accountant and came up with the information published in the September and November Footnotes. Looking for a cheaper and easier process, I called the IRS again and finally got a simple procedure I think we can live with.

The key is that an organization can qualify for tax-exempt status and file the Form 990-N without going through the process of getting official recognition of that status from the IRS. This avoids the whole application process and the \$300 application fee.

The catch is that you need to have all of your documents in order in case you get audited. Also, once you file a return, you must do it every year. If you fail to file for 3 years, you could lose your tax-exempt status. At this time, there is no penalty for filing a few months late.

You can also try to avoid the whole thing by running your club “out of a coffee can” or some other such strategy. I can not recommend this.

The rest of this document describes the steps necessary to accomplish all this. Be aware that web addresses can change from time to time, also fee amounts change.

## The Process

1. Founding Documents
2. Determine fiscal year
3. Getting a federal Tax ID number
4. State Non-Profit Status
5. Set up IRS account
6. File the 990-N return

Details for the preceding items:

### 1. Founding Documents.

Founding Documents are Articles of Incorporation, Constitution, Association agreements, etc that describe the purposes of an organization and its basic rules. Your organization does not have to be a corporation; it can be an association. However a corporation provides more protection of its members from lawsuits.

There are sample Articles of Organization on page 69 of IRS Publication 557: Tax-Exempt Status for Your Organization (Revised June 2008). You can order this and other IRS forms and publications on the IRS website: [www.irs.gov](http://www.irs.gov) . You can have them mailed to you, or you can download them into Adobe Reader.

I think the only reasonable tax-exempt category for most square dance organizations is 501(c)4. This category is for charitable, educational, or recreational organizations. (The problem with 501(c) 7 organizations, social clubs, is that you must get at least 65% of your revenue from your own members. Visitors don't count).

The organizing document should have a paragraph stating the purpose. I suggest this wording: "This Corporation is organized exclusively for educational and recreational purposes and is intended to qualify under section 501(c) 4 of the Internal Revenue Code, or the corresponding section of any future federal tax code."

You should include a paragraph providing that profits shall not be distributed to members, except for reasonable and customary compensation for services rendered. Also add "Notwithstanding any other provision of these articles, the corporation shall not carry on any other activities not permitted to be carried on by a corporation exempt from the federal income tax under section 501(c)4 of the Internal Revenue Code" (See Fifth paragraph of Sample Articles, Draft A)

You should also include a paragraph providing for distribution of funds if the corporation is dissolved: "Upon the dissolution of the corporation, assets shall be distributed for one or more exempt purposes within the meaning of sections 501(c) 3 and 501(c) 4 of the Internal Revenue Code, or to a government entity for public purposes."

Your club may have to go through a revision process to change your Articles of Incorporation or Constitution. This process should already be provided for in those documents.

It is important that you get these documents in order and have the most recent copies signed by at least two officers and placed in a safe and accessible place.

## 2. Determine Fiscal Year.

If you have not done so already, choose a fiscal year. For square dance clubs, reasonable choices for year-end are Dec 31, June 30, Aug 31, or whenever you change officers. This will determine when your tax return needs to be filed. (See section 5.)

## 3. Get a Federal Tax ID number.

If your organization does not have a currently valid tax ID number, also called an Employer identification number (EIN) (often beginning “91-“ or “93-“), then contact IRS to get one. If you have not used an existing Tax ID number for 3 or 4 years, the IRS cancels it. There are three ways to get a new Tax ID number:

- a. online at [www.irs.gov/businesses/small](http://www.irs.gov/businesses/small) . Click on the employer ID numbers link. The number is issued immediately. You will need to furnish information about your organization.
- b. by telephone at 1-800-829-4933 from 7:00am to 10:00pm local time.
- c. by mailing form SS-4 to the address given on the form. You can download this form from [www.irs.gov](http://www.irs.gov) or you can have it mailed to you. Instructions are at [www.irs.gov/pub/irs-pdf/iss4.pdf](http://www.irs.gov/pub/irs-pdf/iss4.pdf)

To avoid duplication, do only one of these. Get Form SS-4 ahead of time so you know what information you will need. It will take up to two weeks for your Tax ID to become part of the IRS permanent records. You must wait until this occurs before you file the 990-N.

If you are not sure whether or not you already have a valid number, call IRS at 1-877-829-5500.

## 4. Get state Non-Profit status

If you already have Non-Profit status, you will receive a renewal form every year. You write the names and addresses of your officers on the form and send it, with \$10, to complete the renewal. Your treasurer will know if he/she has done this.

Otherwise, apply on the website [www.secstate.wa.gov/corps/registration\\_forms.aspx](http://www.secstate.wa.gov/corps/registration_forms.aspx) . Or, go to [www.secstate.wa.gov](http://www.secstate.wa.gov) , click on “Corporations”, then choose “Register Your Corp”. Get the application to form a Non-Profit corporation. The fee for this is \$30.

This does not have anything to do with the Internal Revenue Service, but there are other good reasons for it, for example you have to be Non-Profit to be affiliated with the state Federation.

## 5. Set up an IRS account

Your Form 990-N is due by the 15<sup>th</sup> day of the fifth month after the close of your fiscal year. For example, if your fiscal year ends June 30, the return is due November 15<sup>th</sup>. When you are ready to file, call IRS at 1-877-829-5500 to set up an account (you will only need to do this once, the first time you file). As of November 1, 2008, you select “2” (questions about tax-exempt organizations) from the first menu. This leads to a second menu where you choose “4” (all other questions). You should get a real person. CAUTION: You may be on “Hold” for a long time. I have been on hold for as long as 40 minutes. Have a good book handy. Have information about your corporation ready, especially the Tax ID number and the name.

## 5. File the 990-N return

- I. Go to the website <http://epostcard.form990.org> .

You will have to register as a new user the first time you do this. You will create a password which is case-sensitive. The program will probably add some digits at the end. Be sure to save the account information for next year. Follow the directions to file the return.

You will need:

- Tax ID
- Tax year begin and end dates
- Legal name and mailing address
- Other names used
- Name and address of a principal officer
- Confirmation that gross receipts are less than \$25,000.

Good luck!

Note to club treasurer: Store the records in a safe and accessible place. Be sure to pass this information along to your successor.

If you have any questions or comments, please contact me:

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