

Nonprofit Status

The Chapter and its subordinates are Nonprofit, Tax-Exempt organizations. Nonprofit status refers to incorporation status under state law. Tax-Exempt status refers to federal income tax exemption under the Internal Revenue Code.

Nonprofit organizations have no shareholders and pay no dividends; all earnings are reinvested in the organization in furtherance of its nonprofit purpose.

Tax-Exempt does not mean that the organization is exempt from all taxes. Taxes that tax-exempt organization are subject to include federal payroll (Social Security, Medicare and unemployment) taxes, state and local unemployment taxes, real estate taxes, personal property taxes, sales and use taxes, franchise taxes, unrelated business income taxes, and taxes on lobbying activities.

Associations are required to comply at all times with the strict guidelines for both tax-exempt and nonprofit status in order to maintain their favored status under federal and state tax and state corporation laws.

Group Exemption

A group-exemption letter is a ruling or determination letter issued by the IRS to a "central organization" recognizing on a group basis the federal tax exemption of affiliated "subordinate organizations" on whose behalf the central organization has applied for recognition of tax exemption. A central organization is an organization that has one or more subordinates under its general supervision or control.

The procedures by which a group exemption may be recognized by the IRS require a functioning of the central organization as an agent of the IRS. The central organization is required to continuously evaluate the tax-exempt status of its subordinate organizations to ensure that the tests for tax exemption continue to be met by the subordinates. On an annual basis, the central organization is required to file a current listing of its qualifying subordinate organizations. This listing constitutes an attestation by the central organization that the subordinates continue to qualify as tax-exempt so the IRS need not carry out an independent evaluation as to the tax-exempt status of the organizations.