

A Beginner's Guide to Tax Filing Requirements

Neil D. Gilpin, CPA, Sigma Nu Fraternity, Inc.

"Nothing is certain but death and taxes." There's a strong chance Benjamin Franklin wasn't thinking of fraternities and sororities when he said that. Nevertheless, in a case of prophetic wisdom, that certainty of taxes still applies to nonprofit organizations to some degree. Indeed, the nonprofit status of fraternity and sorority chapters as a 501(c)7 social club means they are tax-exempt organizations. While the nonprofit status of fraternity and sorority chapters exempts them from having to *pay* taxes, they are still required to *file* a tax return with the IRS with one of three versions of the Form 990.

Nonprofit organizations of a certain size - gross receipts exceeding \$25,000 - have been required to file some version of the Form 990 for many years. However, it wasn't until the passage of the Pension Protection Act in 2006 that *all* nonprofit organizations, regardless of their gross receipts, were required to file a return with the IRS beginning with the 2007 tax year. With this relatively new requirement also came a change in the gross receipts thresholds that determine which Form 990 a nonprofit is required to file. These new filing requirements were established to address a growing concern among elected officials that smaller nonprofit organizations were not informing the respective levels of government about their current business operations, changes to important information about the organization, or if the entity was still in existence. These filing requirements are also designed to ensure nonprofits are staying true to their tax-exempt purpose and aren't receiving unrelated business income, which would be subject to tax.

In addition to assisting the IRS collect and organize accurate information about the many nonprofit organizations in existence by requiring all of them to file a return, the Pension Protection Act established consequences for organizations failing to meet this requirement that would negatively affect their operations. Needless to say, it is imperative that fraternity and sorority chapters first understand which Form 990 they are required to file and why.

Which version of the Form 990 fraternity and sorority chapters must use is determined by gross receipts or total assets. To be clear, gross receipts are the total amounts an organization received from all sources during its annual accounting period, without subtracting any costs or expenses. Total assets include everything an organization owns that has some economic value. For fraternity and sorority chapters, this may include the funds within their checking and savings accounts, property they own, or accounts receivable. In most cases, the total assets of a fraternity or sorority chapter will not be as much a factor in determining which Form 990 to file as their gross receipts.

So how does a fraternity or sorority chapter determine which Form 990 it is required to file? There are three versions of the Form 990: 990, 990-EZ, and 990-N. The Form 990 is used if an organization has either (1) gross receipts greater than or equal to \$200,000, or (2) total assets greater than or equal to \$500,000 at the end of the tax year. Form 990-EZ is used if the organization has gross receipts less than \$200,000 but greater than \$50,000 *and* total assets at the end of the tax year less than \$500,000. If the organization normally has gross receipts of \$50,000 or less, it must submit Form 990-N which is the electronic notice (e-postcard) for tax-exempt organizations not required to file Form 990 or 990-EZ. The Form 990-N was the direct result of the Pension Protection Act aimed toward collecting information on smaller nonprofit organizations and raised the threshold requiring them to file from \$25,000 to \$50,000 gross receipts. The rationale was that if the IRS was going to

require all nonprofit organizations to file a return, they could at least make it so most of the smaller nonprofits only had to file an e-postcard with the Form 990-N.

If required to file a Form 990 or Form 990-EZ, the fraternity or sorority chapter will need to keep their financial records in the form of financial statements (balance sheet and income statement). In addition to reporting the financial information to the IRS, you will need to answer several questions concerning the programs, governance, policies, and officers. Although the return is not difficult to prepare for someone with experience, it can be confusing to someone who has not seen the form before. The return is due by the 15th day of the 5th month after the organization's accounting period ends. An automatic three-month extension of time to file can be requested. And, if the organization can show reasonable cause, it can file for an additional three-month extension.

If the fraternity or sorority chapter is required to file a Form 990 or Form 990-EZ, it is advisable that they engage a Certified Public Accountant (CPA) to prepare the return. I also recommend that each chapter at a minimum have an alumnus or outside party review how the financial information is maintained during the year. For larger chapters, monthly financial statements are a great management tool for staying within the annual budget and are a great way to promote transparency among membership. Maintaining monthly financial statements would result in having that information easily available for filing the Form 990 in a timely manner.

For any fraternity/sorority professional with more questions concerning these tax filing requirements, there is a wealth of information on the IRS website at www.irs.gov. Although the requirement to file an annual tax return with the IRS isn't something you may consider a regular part of fraternity or sorority chapter operations, if a chapter does have sound financial practices year-round, this small but important requirement should come much more easily. For fraternity/sorority professionals, the tax-filing requirement is a perfect example of something that will likely be lost during officer transitions, but the continuity and guidance we can provide will ensure the "taxman" doesn't come knocking on our chapters' door.