

Discussion of Self Proclamation, 501 c 7 Incorporation, Non-Profit, and Tax Exemption

This discussion is regarding how to incorporate your shag club and get recognition from the IRS as to being a 501 (c) 7 organization and not have to file the IRS Form 1024 (Formal determination by the IRS of being tax exempt with them). *As an update, Foster McKinney had a discussion with the IRS and this applies only to clubs that are new, or those which are changing from being unincorporated to incorporated. He will discuss this information and also tell you about a 990T.*

First, I am not an accountant, nor an attorney, but I was able to navigate this IRS jungle as the president of a Shag Club, and come out with a very favorable outcome. To begin with, our club had a unique problem, but I think our solution will translate very well for many of you. Sandy Beach Shag Club was formed in the 1980's and went out of business as a club in 1999. We formed a new club in 2005 with the same name. My role started simply, as I went online and tried to file a 990N using our EIN (employer identification number). I got an email from the IRS that said, you need to contact us, there is a problem. I called the IRS and according to them, someone had tried to file a Form 1024 from our club in the 1990's. They never completed the requirements, and the IRS had determined we were not tax exempt for failure to complete the necessary requirements. Needless to say, this sounded pretty bad at that point.

The long and short of the adventure is that I was told that if I wanted to get around my problem, the best solution was to incorporate the club (in North Carolina), get a new EIN, and once I had, call them back and they would handle the rest. According to them, if North Carolina recognized us as a non-profit, they would also. I incorporated our club in NC, applied to the IRS for a new EIN, and then called them back. They took my information and the IRS agent informed me it would take a period of time and I could then go online and file my form 990N. When that date arrived, I did just as I was told, and it was done as smooth as silk!

Now, here is some great information from several sources. This was given to me by Foster McKinney, and I strongly recommend that you go to <http://www.tax-exempt-non-profit-clubs.com> and read this information.

Remember: Non-Profit is a state term referring to the type of corporation recognized. Tax exempt refers to the IRS code that allows an organization to be exempt from federal income tax. Depending on your state, there are state tax exemption issues to deal with as well.

As a shag club, you have basically two paths to go down regarding your determination of tax exemption.

- 1) Formal determination using IRS Form 1024- Very lengthy and expensive!
- 2) Self Proclaimed- 990N.

If you are successful at the second path, then you can file a 990N online at <http://epostcard.form990.org/>

You will be asked 8 items:

- 1) EIN
- 2) Tax year
- 3) Legal name and mailing address
- 4) Any other names that the organization uses
- 5) Name and address of the principal officer
- 6) Web site address if the organization has one
- 7) Confirmation that gross receipts are < \$50,000 for the tax year ending on or after 12/31/2010
- 8) If applicable, a statement that the organization has terminated or is terminating

Social & Recreational Clubs

Most of us will be 501 (c) 7 organizations and these can be self proclaimed without formal application to the IRS. Assuming that you meet the above criteria for the smaller 501 (c) 7 social organizations, you can incorporate your club,

which is a good idea anyway for liability issues, and the protection this affords. It appears that incorporation is not necessary, but certainly can make dealing with the state tax exemption aspect much simpler.

The IRS publication that refers to all of this is Pub 557. It says for 501 (c) 7 entities that you “should” file (the 1024). For the 501(c) 3 (charitable organizations), it says you “must” file form 1023 (for those clubs that want to be a charitable organization)

I am not going to address the task of incorporating your club for your particular state as states have different rules, but I must say that in North Carolina it was a fairly simple task. Once you have the IRS indicating you are tax exempt, in North Carolina, you must also get the state to recognize you as tax exempt. This is usually a very simple matter once the IRS has recognized you.

North Carolina incorporation info: <http://www.secretary.state.nc.us/corporations/pdf/NonprofitCorporation.pdf>

Most Significant Of All Information Found on the subject of self-proclamation:

http://www.irsvideos.gov/StartingOffRightNON501c3/player/Powerpoint_Slide_Presentation_with_Transcript.pdf

Page 33 is about 501 c 7's and the most important page is **page 39**. Here was a question and answer posed to an IRS agent:

IRS: “Here is another question that we received.

‘I’ve heard that organizations such as the ones you are discussing today – 501(c) 4s, 5s, 6s, 7s, 8s, and 10s – are not actually required to complete and submit Form 1024, *Application for Recognition of Exemption Under Section 501(a)*. In other words, an organization that believes it qualifies for exemption under one of these subsections can simply say it does and start to operate. Is that true?’

IRS: “It is true the Tax Reform Act of 1969 requirement to ‘give notice,’ (to apply for recognition of tax-exempt status) applies only to organizations wanting section 501(c)(3) status.

So, although other types of organizations are not required to file Form 1024, they may still wish to do so in order to receive a determination letter of IRS recognition of their status. Having the determination letter ensures public recognition of their status and may enable exemption from some state taxes.

Also, even though an organization may ‘self-proclaim’ its tax-exempt status, it is still subject to the rules governing its particular sub-section. It is also subject to IRS examination to determine whether it meets the requirements for the exemption it is claiming.”

Good luck if this is a journey that you have yet to take. I am available if you need to ask any questions pertaining to my adventure.

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