

## Federal Employer Identification Number and IRS Form SS-4

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Every PTA must acquire an IRS Employer Identification Number (EIN or FEIN). That number is a part of the permanent record of the local PTA and should also be on file in the state PTA office. Check with the state PTA office or the previous treasurer for the PTA's EIN. This number should be used for bank accounts and will be required for filing an IRS Form 990.

The PTA may acquire an Employer Identification Number by filing a Form SS-4 (Application for Employer Identification Number) with the IRS. The name of the local, council, or district PTA should be used in filling out the application. The school address may be used if only one school is involved. The only place an individual's name should appear is on the signature line where the officer making application must sign. The "reason for applying," as requested on the form, should be completed "for banking purposes only."

Because some state PTAs secure the EIN for their PTAs, be certain to check with your state PTA office or state treasurer before filing Form SS-4.

After checking with the state PTA office, if an EIN is needed immediately, IRS Service Centers are able to issue them to authorized persons over the phone through their Tele-Tin Service. Contact the IRS Service Center in your area for phone number and information. No fee is required.

## IRS Federal Tax-Exemption Status-501(c)(3) Organizations

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Most PTAs are classified as tax-exempt 501(c)(3) Public Charities under the Internal Revenue Code (IRC).

One major advantage for organizations that are exempt under Section 501(c)(3) is that contributions to such organizations may be treated as charitable contribution deductions by donors for purposes of calculating their federal income taxes. This includes PTA members themselves, who may receive only minimal reimbursement for their expenses and may be able to treat the balance as charitable gifts. Examples of possible expense deductions include transportation, telephone calls, meals, and lodging. Consult with current IRS rulings for allowable deductions.

It is very important that PTAs do not jeopardize their favorable tax-exempt status. They must not violate certain restrictions that apply to their 501(c)(3) classification.

- A PTA, as a 501(c)(3), must be organized and operated exclusively for charitable, educational, or scientific purposes (mission as defined in bylaws).
- A PTA's resources and funds cannot be used for private benefit of an officer or director (private inurement).
- Upon a PTA's dissolution, its assets must be distributed for one or more of those defined exempt purposes.
- A PTA cannot engage in any political activity. Organizations that are classified 501(c)(3) are forbidden to support candidates for public office.
- A PTA can only engage in an insubstantial amount of lobbying activity.
- In evaluating whether or not an organization meets the qualifications for exemption under 501(c)(3), the IRS evaluates according to the following:

1. **Organizational test**—The IRS examines bylaws, articles of incorporation, etc., to determine the purpose of the organization and for other provisions that address compliance to the restrictions listed above.

2. **Operational test**—The IRS evaluates the organization's operations, its activities, the sources of its income and receipts, and the disposition of funds with regard to the restrictions listed above.

#### Private Inurement

If the PTA has applied for and been granted an exemption under 501(c)(3), no part of the net earnings of the organization may inure to the benefit of or be distributed to its members. The inurement prohibition means, for example, that PTAs cannot pay more than market value for goods or services to an insider (someone in a decision-making capacity). Nonprofit organizations are devoted to charitable purposes, whereby profits (or reserves) may not be distributed to its members.

## Determination Letter of Federal Tax-Exemption Status and IRS Form 1023

### Determination Letter of Federal Tax-Exemption Status and IRS Form 1023

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PTAs can generally qualify for exemption from federal income tax. Some state PTAs have secured from the IRS a group (blanket) federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code, which applies to its local PTAs and other constituent bodies. In other states, each local PTA must secure tax exemption for itself from the IRS. Check with the state PTA office if this information is not known.

If tax exemption has not been secured for the PTA, the treasurer or other officer must apply for recognition of tax exemption by completing IRS Form 1023 in the name of the PTA and returning it to the IRS with a check in the amount of the required fee. The IRS will issue a letter stating its determination of tax-exempt status. This determination letter of tax-exempt status from the IRS should be part of the permanent records of the PTA. It is advisable for the state office to have a copy for its file. Once approved, a tax exemption continues in force until revoked by the IRS.

Form 8718 (User Fee for Exempt Organization Determination Letter Request) must be submitted with the appropriate fee listed on the form. The fee varies and is based on the PTA's annual gross receipts.

Refer to IRS publication 557 regarding the rules and procedures for obtaining exemption from federal income tax.

These forms and publications may be obtained free from the IRS by calling (800) TAX-FORM (829-3676) or by visiting [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

By law, an application for determination of tax-exemption status submitted to the IRS must be made available upon request for public inspection, along with any papers submitted in support of the application and any letter or other document issued by the IRS in response to the application. The IRS is required to impose penalties for failure to comply with this provision of the law unless failure to do so was due to reasonable cause.

## Statement for Recipients of Miscellaneous Income—IRS Form 1099-MISC

### Statement for Recipients of Miscellaneous Income—IRS Form 1099-MISC

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PTAs may be required to file Form 1099-MISC with the IRS if they pay \$600 or more during the calendar year to any unincorporated business or person for services rendered or in payment for a grant, award, or scholarship.

Form 1099-MISC is not required to be issued to corporations or to those paid less than \$600.

For information regarding specifically when and how to file, you can obtain a copy of the instructions for Form 1099-MISC from the IRS.

Form 1099-MISC must be sent to the recipients on or before January 31 of each year and filed with summary form 1096 to the IRS on or before February 28 of each year.

### Application for Changing Accounting Period—IRS Form 1128

An organization that is recognized as exempt from federal income tax and wishes to change its accounting period or fiscal year must inform the IRS. In some cases, IRS Form 1128, Application for Changing Accounting Period, must be filed. The IRS can impose penalties and interest when a PTA changes its accounting period without filing Form 1128, when required to do so.

However, if a PTA has not changed its accounting period at any time within the last 10 years, it should prepare an interim short period financial report covering the months that fall between the end of the current and start of the new fiscal years and submit a Form 990 and Schedule A to the IRS covering those interim months.

### Unrelated Business Income—IRS Form 990-T

Most PTAs are exempt from federal income tax under Section 501(c)(3) of the IRC and further defined as a public charity (not a private foundation).

Tax-exempt status means that the PTA does not pay federal income tax on income from activities that are substantially related to the purpose for which the PTA was given exempt status.

However, the PTA may be required to pay tax on other types of income, referred to as unrelated business income (UBI).

The law requires nonprofits to

- Report unrelated business activities when gross receipts are at least \$1,000 by filing IRS Form 990-T
- Pay taxes on net (after expenses) receipts

Nonprofits risk losing their tax-exempt status only if such activities become the primary focus and make the tax-exempt mission secondary.

What is unrelated business income

For an activity to be classified as yielding unrelated business income, three factors must be present: The income or activity must be (1) from a trade or business, (2) regularly carried on, and (3) unrelated to the organization's exempt purpose.

#### 1. From a trade or business

- To be considered a business, the nonprofit must take an active role in the generation of the income from an activity.
- The activity must provide income, but does not have to produce a profit.

#### 2. Regularly carried on

- IRS regulations state that activities that are carried on only "discontinuously or periodically" will not be considered to be regularly carried on.
- If activities are of short duration, but follow-up or preparation is carried on over a long period, it could be UBI.
- An activity occurring only once per year may be considered UBI if a commercial company performing the same activity would also be active only once a year.

### 3. Unrelated to the organization's tax-exempt purpose

- If an activity is not substantially related to the PTA's mission, then it could be considered unrelated to fulfilling the exempt purpose of the PTA.
- It is important to remember that the substantial relation to the PTA's exempt purpose cannot come solely from the PTA's need for money.

The destination or use of the income has no bearing on determining if it is unrelated business income. This determination is made by how the income is earned.

#### Exceptions or Exemptions

Most PTA fund-raising activities are exempt from federal income taxes because of the following:

They are conducted only once per year, or

- Eighty-five percent (85%) of the work of the activity is conducted by volunteers, or
- They consist of selling donated merchandise (e.g., a silent or live auction of donated merchandise). Judgment is made on a case-by-case basis whether an activity is related or unrelated.
- The federal, state, and local government may have different standards for pursuing the charge of UBI although most state and local governments follow the federal rules.

## Information Return of Organization Exempt from Income Tax-

### Information Return of Organization Exempt from Income Tax--IRS Forms 990 and 990-EZ

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Local PTAs, councils, or districts may be required to file an annual information return of their income and expenses on Form 990 (Return of Organization Exempt from Income Tax) and other related information forms provided by the IRS, such as Schedule A and Form 990T. The IRS normally sends such forms to tax-exempt organizations, but the responsibility of filing lies with the PTA treasurer, whether or not such forms are received.

- If a PTA receives a Form 990 package in the mail, with an addressed mailing label, but is not required to file because its annual gross income is normally not more than \$25,000, the treasurer should proceed as follows:
  - Attach the label to the name and address space in the Form 990 return.
  - Check box K (in the area above Part 1) to indicate that the PTA's gross receipts are below the \$25,000 filing minimum.
  - Sign the return.
  - Keep a copy for the PTA's permanent records and send the original to the area IRS Service Center by registered mail.
  - The treasurer does not have to complete Parts I through IX.
- If the PTA's annual gross receipts are normally more than \$25,000, it has an obligation to complete and file Form 990 and Schedule A, whether or not it received them in the mail.
- If in any year the PTA's gross receipts are less than \$100,000 and total assets are less than \$250,000, the treasurer may file Form 990-EZ instead of Form 990.
- Forms 990 and 990-EZ are due by the 15th day of the fifth month after the close of the PTA's fiscal year. For example, if the PTA's fiscal year-end is June 30, the form is due November 15.
- If the return is filed late, a penalty of \$20 a day may be charged. The penalty is not to exceed the lesser of \$10,000 or 5 percent of the organization's gross receipts for the year. Also, a penalty may be charged if the return is filed incorrectly or incompletely.
- If the PTA is required to submit a completed 990 or 990-EZ, it must submit a Schedule A as well [501(c)(4) organizations are not required to file Schedule A, but must file a 990 or 990-EZ as required].
- If the PTA makes more than \$1,000 in unrelated business income, it must file a 990-T as well.
- If the PTA has made significant changes to its bylaws, (i.e., change in fiscal year, change in governance/structure), a copy of the updated bylaws should be submitted to the IRS with completed forms 990 or 990-EZ.
- IRS Form 2758. If a PTA wishes to request an extension of time to file Form 990 or 990-EZ, it should complete and file form 2758 with the IRS before the deadline determined by the close of the PTA's fiscal year.

## Public Inspection Requirements

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Any PTA that files a Form 990 (990-EZ) must make its return available for public inspection during the three-year period beginning with the due date, including extensions. All parts of the return and all required schedules and attachments other than the schedule of contributors to the organization, and form 990-T, must be made available. Inspection must be permitted during regular business hours at the organization's principal office. If the organization does not maintain a permanent office, it must provide a reasonable location for a requester to inspect the organization's annual returns. The organization may mail the information to a requester and can only charge for postage and copying if the requester gives up the right to a free inspection.

For a request made in person, the PTA must make an immediate response. For a request made in writing, the PTA must provide the requested copies within 30 days and may charge a reasonable fee for reproduction and mailing costs.

Any PTA that does not comply with the public inspection requirement will be assessed a penalty of \$20 for each day that inspection was not permitted, up to a maximum of \$10,000 for each return. No penalty will be imposed if the failure is due to reasonable cause (determined by the IRS). Any PTA that willfully fails to comply will be subject to an additional penalty of \$1,000.

*All inquiries should be reported to the state PTA.*