

The Taxman Cometh

As another new year begins, everyone thinks about taxes and, while we might not be sure of the amounts and percentages, we can be sure someone is going to want money.

Fraternity chapters and alumni (house) corporations must file federal tax forms. Failure to complete required tax forms has resulted in severe penalties for some chapters. Here are some guidelines to help you understand your responsibilities to Federal Law.

Alpha Gamma Rho Fraternity is classified as a 501(c)7 organization. This part of the IRS code covers social clubs and organizations, but may also include house corporations, if they conduct social activities.

Organizations with this classification are exempt from paying income tax as defined under section 501(a) of the Internal Revenue Service Code. Because chapters and colonies are subordinates of the Alpha Gamma Rho Fraternity, a 501(c)7 organization, they are automatically classified as 501(c)7 groups.

Unless your chapter has applied for and received an exemption within your state, you must pay any applicable sales and property taxes. Alumni corporations, as legally separate organizations, must apply for their own exempt status.

Any organization which receives an exemption or falls under a group exemption (like chapters and colonies) **MUST** have its own employer identification number (EIN). It must have this number whether or not it has employees. Look at this number as a Social Security Number, only for businesses and organizations, rather than individuals.

In addition, an EIN is required by many banks prior to opening a checking account for an organization. **Form SS4** from the IRS is used to obtain an EIN. If you don't know your EIN, the Home Office may have one on file (if your chapter or corporation has provided that information to us in the past).

Federal Tax Calendar (for fiscal years ending May 31)

- **By January 31:** Give each employee a completed **W-2** -- Wage and Tax Statement. File **Form 904**-- Annual Employer's Tax Return. File **Form 941**-- Quarterly Employer's Federal Tax Return and pay any undeposited income and social security taxes.
- **By February 15:** Ask for a new **Form W-4** -- Employee's Withholding Allowance Certificate from each employee whose withholding status may have changed.
- **On February 16:** Any **Form W-4** previously given you, claiming exemption from taxes has expired. If you have not received a new **Form W-4**, begin withholding as if the employee is single, with zero withholding allowances.

- **By February 28:** File **Form W-3** -- Transmittal of Income and Tax Statements with the Social Security Administration and include **Copy A** from each of the chapter's employees' **W-2 forms**.
- **By April 30:** File **Form 941** and pay any undeposited income and social security taxes.
- **By July 31:** File **Form 941** and pay any undeposited income and social security taxes.
- **By October 15:** File Form **990** or **990EZ** -- for tax exempt organizations whose fiscal year ends May 31. If your fiscal year does not end on May 31, you must file this form on the 15th day of the 5th month following your fiscal year end.
- **By October 31:** File Form **941** and pay any undeposited income and social security taxes.
- **By December 1:** All employees must file a new **Form W-4** if their withholding allowances have changed.
- All new employees should complete a **Form W-4** and **Form I-9** as soon as they begin to work.

NOTE: Know when your fiscal year ends, as the due dates for filing the 990 or 990EZ change accordingly.

Penalties

990 and 990EZ: A penalty of \$10 a day, with a maximum of \$5,000 may be charged when a return is filed late. To request a time extension, the chapter must complete and submit a Form 2758, before the 990/EZ's due date.

W-2, W-3 and W-4: The Federal penalty for filing late or unreadable forms is \$50 per document.

940 and 941: If you file late, explain why in an attached sheet and you may not be penalized by the IRS. Otherwise, interest will be charged on all unpaid taxes and other penalties could result.

Contributions

Contributions to any 501(c)7 organization, such as chapters and most alumni corporations are not tax deductible to the individual making the contribution. Only contributions to Alpha Gamma Rho's Endowment Fund, a 501(c)3 educational foundation, or chapter endowments with the same 501(c)3 status are eligible for tax deductibility in the United States.

Solicitations

According to Federal law, any printed solicitation by a chapter or alumni corporation for donations must be accompanied by a statement (with typeface equal to or greater in size than that used for the solicitation) saying that “any contribution made to this organization is not tax deductible.” Only those organizations listed as 501(c)3 can offer tax deductions to donors.

Non-Member Income

Non-member income can be defined as any income that the chapter receives from any person that is not a member of the Alpha Gamma Rho Fraternity. Non-member income (income from any non-member for room, board, parking privileges, fundraising, etc.) may not exceed 35% of total income or the tax exempt status may be lost. Consult local tax counsel for more information.

Sales Tax

Some chapters may think that not-for-profit organizations are also exempt from paying sales or property taxes. This is wrong, unless the chapter has applied for and received an exemption from their state. It is illegal to allow local merchants to give an organization exemption from sales tax if the chapter is not exempt by their state.

Publications Available

The IRS provides the following publications to assist you in proper reporting:

- Circular E -- Employer's Tax Guide
- Instruction for Form 990
- Publication 393 -- Federal Employment Tax Forms
- Publication 557 -- How to apply for and Retain Exempt Status for your Organization

NOTE: The above is provided as general information only and should not be interpreted as legal advice or used in place of competent legal counsel.