

**Financial Reporting Information
for
Managing Small Non-Profit Groups**

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I. Annual Federal Financial Reporting to the Internal Revenue Service

A. Form 990 - General Information

1. Tax exempt organizations must file one of the following information returns:

- a. Form 990
- b. Form 990EZ
- c. Form 990N

2. The determination of whether an organization must file Form 990, Form 990-EZ, or Form 990-N is dependent on the organization's gross receipts and total assets.

Note: Gross receipts are the total amounts the organization received from all sources during its tax year without subtracting any costs or expenses.

3. Form 990 and 990EZ

a. Form 990 and 990EZ are used by tax exempt organizations, nonexempt charitable trusts, and section 527 political organizations to provide the IRS with items of gross income, receipts, and disbursements, and such other related information (IRC §6033).

b. Form 990 is required to be filed by most organizations exempt from income tax.

c. Form 990 must be filed by an organization exempt from income tax if it 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.

d. Form 990-EZ must be filed if an organization has gross receipts less than \$200,000 and total assets at the end of the year of less than \$500,000.

6. Form 990-N - Form 990-N must be filed with the IRS if an organization normally has gross receipts of \$50,000 or less.

- a. It may choose to submit Form 990 or 990-EZ instead of Form 990 N.
- b. To determine whether an organization's gross receipts are normally \$50,000 or less, apply the following test.
- c. An organization's gross receipts are normally \$50,000 or less if the organization is:
 - 1. Up to a year old and has received, or donors have pledged to give, \$75,000 or less during its first tax year;
 - 2. Between 1 and 3 years old and averaged \$60,000 or less in gross receipts during each of its first 2 tax years; or
 - 3. Three years old or more and averaged \$50,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).
- d. If the organization's gross receipts are normally \$50,000 or less, it must submit Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ, if it chooses not to file Form 990 or 990-EZ.

Form	Gross Receipts	Assets
990	>\$200,000	>\$500,000
990EZ	<\$200,000	<\$500,000
990N	<\$50,000	

NOTE: Keep in mind that under IRC §6033, even if certain organizations have gross receipts of \$200,000 or more or total assets of \$500,000 or more, it may not be required to file a Form 990 or 990-EZ.

- a. Under IRC §6033, certain organizations are exempt from this filing requirement, including: (i) churches, (ii) religious organizations under 501(c)(3), (iii) educational organizations, (iv) charitable organizations, and (v) other 501(c)(3) organizations.
- b. Instead, those organizations file 990-N.

B. 990N – Do you have to submit this online to the IRS?

1. Form 990-N is utilized by most small tax-exempt organizations that would otherwise have an annual reporting requirement under §6033.
2. Form 990-N is submitted electronically, and there are no paper forms of Form 990-N.
3. To file 990-N, you will need eight items of basic information.
 - a. Employer Identification Number (EIN)
 - b. Tax Year
 - c. Legal Name and mailing address
 - d. Any other names the organization uses
 - e. Name and address of a principal officer
 - f. Website address if the organization has one
 - g. Confirmation that the annual gross receipts are \$50,000 or less
 - h. If applicable, a statement that the organization has terminated or is terminating (going out of business)
4. Form 990-N is due every year by the 15th day of the 5th month (May 15 for calendar year entities) after the close of your tax year.
 - a. The filing cannot occur until after the tax year ends.
 - b. There are currently no penalties associated with filing late, but if you fail to file for three consecutive years then you will lose your tax-exempt status.
5. For a complete guide on how to file Form 990-N, [here is a PDF](#).

C. How do I create the login to the IRS?

1. Begin by opening the electronic filing page located at [this web address](#), or Google “File Form 990-N” and find the Form 990-N webpage. Scroll down until you see “Submit Form 990-N (e-Postcard)”. Click that blue box.
2. Next, click the option to create an account either with Login.gov or ID.me. Login.gov is the public's one account for simple, secure, and private access to participating U.S. government agencies. ID.me is a single sign-on provider that

meets the U.S. government's online identity proofing and authentication requirements.

3. Both offer access to IRS online services with a secure account that protects your privacy.

a. Login.gov is an account created, maintained, and secured by the U.S. government.

b. ID.me is an account created, maintained, and secured by a technology provider. With a Login.gov or ID.me account, you can access other government partners who also use these sign-in options. Follow the prompt of instructions until your account is created.

D. 990EZ – When would you need to submit this form instead of the 990N?

1. Form 990-EZ must be filed if an organization has gross receipts less than \$200,000 and total assets at the end of the year of less than \$500,000.

2. Gross receipts are the total amounts the organization received from all sources during its tax year without subtracting any costs or expenses. Form 990-EZ is essentially a short form of Form 990.

3. File Form 990-EZ by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar-year filer).

a. If the due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that isn't a Saturday, Sunday, or legal holiday.

b. If the organization is liquidated, dissolved, or terminated, file the return by the 15th day of the 5th month after liquidation, dissolution, or termination.

c. If the return isn't filed by the due date (including any extension granted), attach a statement giving the reason(s) for not filing on time.

E. Full 990 – When would you need to submit this form instead of the 990N or 990EZ?

1. Form 990 must be filed by an organization exempt from income tax if it 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.

2. Gross receipts are the total amounts the organization received from all sources during its tax year without subtracting any costs or expenses.

F. Can the 990EZ and 990 be mailed to the IRS? Or is it recommended it be submitted by an Accountant with online submittal ability?

All forms must be filed electronically.

G. Form 990 T

1. If your organization has gross income of \$1,000 or more from a regularly conducted unrelated trade or business, you must file Form 990-T in addition to your required annual information return or notice.

2. The form instructions and IRS.gov should be consulted for electronic filing guidance.

3. For tax years beginning after December 31, 2017, an organization with more than one unrelated trade or business must compute its UBTI (unrelated business taxable income), including for purposes of determining net operating loss deduction, separately with respect to each such trade or business.

4. Organizations complete a separate Schedule A (Form 990-T) to calculate UBTI for each of its trades or businesses.

H. How do you submit corporate changes to the IRS, such as contact information, address changes, or email changes? When should these changes be submitted?

1. IRS

a. An exempt organization that has changed its information must report the change on its next annual return or information notice (such as Form 990, 990-EZ, or 990-N). There are sections of the form on which to add this information.

b. Form 8822-B.

1) If you moved during the year, fill out Form 8822-B, Change of Address or Responsible Party-Business.

2) Also, if your “Responsible Party” changed this year, you must also fill out Form 8822-B.

3) Note: Changes in responsible parties must be reported to the IRS within 60 days.

4) The “Responsible Party” is the tax-exempt organization’s “Principal Officer”, as defined in the Form 990 instructions, in the Glossary section.

2. How do you make changes to your officers, address, contact info.

a. Overview

1) The PA Department of Revenue has forms that non-profit organizations and other business organizations complete to update the Commonwealth on information changes.

2) Updates can be done in this manner if the organization is registered with the Department of Revenue’s MyPath system (as explained further below).

3) Even though these updates are submitted to the Department of Revenue, the Department of Revenue will notify the Department of State of any changes.

b. Form Rev – 1605 – Officers

1) Form Rev-1605, found on the Department of Revenue’s website, is an annual report with the Department of Revenue to report Corporate Officers (President/Managing Partner, Vice President, Secretary, and Treasurer/Tax Manager).

2) Even though a non-profit corporation might make changes to its officers at any point in the year, the actual changes reported to the Commonwealth are reported on this form as a means of updating the Commonwealth.

c. Form Rev - 854 - Address

1) Form Rev-854, found on the Department of Revenue’s website, is used to request address updates for corporation tax accounts.

2) This can be submitted through MyPath. This form cannot, however, be used for making Legal Name changes, just address changes.

d. Form DSCB 15-1507 (the Change of Registered Office) – Change of Registered Office

1) In addition, Form DSCB 15-1507 (the Change of Registered Office) form can be used to update the address and contact information for the organization with the PA Department of State.

2) The filing fee for this form is \$5 and should be filed after any change in contact information so that the organization can promptly receive any notices as needed.

3) Should this be sent for changes?

(a) It depends on the changes. DSCB 15-1507 is the Change of Registered Office form and it can be used to update the address and contact information for the organization with the PA Department of State.

(b) No other organizational changes would be reflected in this form. For more information regarding organizational changes (i.e., officer changes), please see the information above about Form Rev-1065.

4) Does a statement from the Board of Directors needed to be submitted with this form. (Note: PO Box not acceptable)

Yes. A statement from the Board of Directors of all business and non-profit corporations must accompany this form. The statement must state that the change was authorized by the board of directors or other body that would approve this change in the organization.

II. Form 1099

A. When do you need to mail out the 1099's to the recipient? What is the deadline to send to the IRS?

1. **Form – 1099 - Misc** - Businesses must send Form 1099-MISC to recipients by February 1, and file it with the IRS by March 1 (March 31 if filing electronically).
2. **Form – 1099 - NEC** - Form 1099-NEC is a new form (beginning in tax year 2020) for non-employee compensation of \$600 or more to a payee.
 - a. This form should be filed with the IRS, on paper or electronically, and sent to recipients by February 1.
 - b. There is no automatic 30-day extension to file Form 1099-NEC.
 - c. However, an extension to file may be available under certain hardship conditions.
 - d. Also, non-employee compensation may be subject to backup withholding if a payee has not provided a taxpayer identification number to the payer or the IRS notifies the payer that the Taxpayer Identification Number provided was incorrect.

**B. 1099's – What is the criteria for creating a 1099 (vendors, amounts)?
Should a W-9 be filled out by all vendors?**

1. **Two Types –**
 - a. Form 1099 is an IRS form used to report the payment of certain expenses annually to both the recipient and the IRS
 - b. There are two types of 1099s an organization can create for vendors, depending on the type of compensation and the amount paid: Form 1099-NEC and Form 1099-MISC.
 - c. Form 1099-MISC is used in the reporting of payments that are not subject to self-employment tax – things like rents and prizes.
 - d. Form 1099-NEC is used for reporting non-employee compensation that is most likely subject to self-employment tax.
2. **Form 1099 – NEC –**
 - a. Form 1099-NEC is a new form for tax year 2020 and beyond for non-employee compensation of \$600 or more to a payee (a vendor).

b. This form should be filed with the IRS, on paper or electronically, and sent to recipients by February 1, 2021.

c. There are multiple exceptions to the list of who must receive a 1099-NEC form, but the most common are:

- 1) Vendors operating as S or C-Corporations as marked on their W-9s
- 2) LLCs or partnerships taxed as an S or C-Corp (again see the W-9 below)
- 3) Sellers of merchandise, freight, storage or similar items.
- 4) Payments of rent to or through real estate agents (typically property managers).
- 5) However, you do need to issue a 1099 to a landlord you are paying rent, unless they meet another exception.

d. Business owners must compile all of their 1099-NEC forms and send the accompanying 1096 (summary of non-employee compensation) and mail them to the IRS, or file them electronically with the IRS by January 31.

e. Examples:

- 1) Freelance work: Writers, editors, designers and other freelancers, whether operating as LLCs or sole proprietors, will receive a 1099-NEC for compensation received during a calendar year.
- 2) Contract work: Any contractors who aren't paid as W-2 employees through a staffing firm (or otherwise have employment taxes withheld) will receive Form 1099-NEC.
- 3) Independent services: Any small businesses doing things like web design, legal or accounting work, or network administration services will likely be subject to this type of reporting.

3. Form 1099 – MISC

a. Form 1099-MISC (Miscellaneous Information, as it's now called) is used to report certain types of miscellaneous compensation, such as rents, prizes, and awards, healthcare payments, and payments to an attorney.

b. It is completed and sent out by someone who has paid at least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest to another person.

c. It's also sent to each person to whom you paid at least \$600 during the calendar year in the following categories:

1) Rents (real estate agents and property managers report rent paid to property owners, for instance, or you report the office space rent that you paid)

2) Prizes and awards

3) Other income payments

4) Medical and healthcare payments (made in the course of your trade or business)

5) Crop insurance proceeds

6) Cash payments for fish (or other aquatic life) purchased from anyone who makes a living catching fish

7) Cash paid from a notional principal contract to an individual, partnership, or estate

8) Payments to an attorney

9) Any fishing boat proceeds

d. Organizations should request a W-9 from vendors, especially those who may receive \$600 or more, before those vendors are paid. Receiving a W-9 from vendors will help an organization discern information needed to issue a Form 1099.

e. Use Form W-9 to provide your correct Taxpayer Identification Number (TIN) to the person who is required to file an information return with the IRS to report, for example:

1) Income paid to you.

- 2) Real estate transactions.
- 3) Mortgage interest you paid.
- 4) Acquisition or abandonment of secured property.
- 5) Cancellation of debt.
- 6) Contributions you made to an IRA.

C. If you are receiving rent for using your historic property, should you create a 1099 Misc for the income? If yes, what is the dollar amount requirements?

1. All income earned through the action of renting a property needs to be reported at the end of the taxable year.
2. Form 1099-Misc. is used to report all rent collected as cash or checks.
3. Under the new rules self-managing rental property owners would need to file a Form 1099-K if they accepted credit card or debit card transactions that amount to more than \$600 during the tax year.
4. Otherwise, the rent is reported on Form 1099-Misc.

D. 1099's for temporary help such as summer interns

1. The determination for whether summer interns should receive 1099s is a question of whether the summer intern is classified as an independent contractor or employee.
2. In making this determination, organizations must consider the degree of control and independence in the relationship.
3. This may be reliant in part on state law, but generally, facts that provide evidence of the degree of control and independence fall into three categories:
 - a. *Behavioral*: Does the company control or have the right to control what the worker does and how the worker does his or her job?
 - b. *Financial*: Are the business aspects of the worker's job controlled by the payer? (these include things like how worker

is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)

- c. *Type of Relationship:* Are there written contracts or employee type benefits (i.e., pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

4. There is no one determining factor to make this classification, but organizations who find one way or the other should document how they made the classification and potentially inform the worker.

5. Once a classification is determined, simply put, independent contractors receive 1099s from the company whereas employees should receive W2s.

E. Raffle items should they be reported on W-2G? Is there an amount threshold?

1. If raffles, drawings, or other gaming activity falls outside an organization's exempt purpose, their revenue is subject to unrelated business income tax.

2. Worse yet, engaging in too much unrelated business activity can threaten an entity's tax exemption.

3. Yes, raffle items must be reported on **Form W2-G**.

4. A form must be completed for each person to whom the organization pays \$600 or more in winnings.

a. For most games, the organization must report winnings on a W-2G if a prize is \$600 or more (subtracting out tickets cost) and if the prize is at least 300 times the ticket cost. (i.e., Tickets cost \$2 and the grand prize is \$1,000, the organization would report \$998 in winnings; i.e., Tickets cost \$2, and the grand prize is \$600.

b. No reporting required because the net winnings are only \$598.

c. Also, the original W-2G should be given to the winner of the prize but a copy of each individual W-2G must be provided to the PA Department of Revenue and the IRS.

5. If revenue from games or fundraising (raffles) exceeds \$15,000, the entity must report them on Form 990 or 990-EZ Schedule G - Supplemental Information Regarding Fundraising or Gaming Activities.

F. Do you report raffle awards to the Commonwealth of PA?

1. Yes, raffle awards must be reported in PA.
2. The Pennsylvania Crimes Code provides that all forms of gambling are illegal unless the Pennsylvania Legislature specifically authorizes the gambling activity by statute.
3. The statute that authorizes these types of activities (raffles) for non-profits is the Pennsylvania Local Option Small Games of Chance Act of 1988.
4. This law authorizes non-profit organizations to conduct the following games of chance:
 - a. Pull-tab games
 - b. Punchboards
 - c. Raffles
 - d. Daily drawings
 - e. Weekly drawings
 - f. Fifty-fifty drawings
 - g. Race Night Games
 - h. Pools
5. Non-profit organizations must still acquire a license to conduct these activities.
 - a. For example, a Regular License is an annual license that runs for a calendar year from the date of issuance and costs \$125.
 - b. Special Raffle Permits authorize a holder to conduct a raffle that exceeds the normal prize limits (normal prize limits mean a single chance cannot exceed \$2,000, but total special raffle prizes awarded may not exceed \$150,000).

c. For more detailed information about normal prize limits and special permits, see the Local Option Small Games of Chance Act.

6. In addition to the W-2G that must be provided to the PA Department of Revenue and the IRS for certain raffle prizes, non-profit organizations must file a separate report with the PA Department of Revenue if the organization has proceeds from raffle prizes of \$20,000 or more in a calendar year.

a. The report that must be filed is Form Rev-1750 which will require information about:

- 1) Proceeds received by the club licensee from each game of chance conducted, itemized by week
- 2) Amount of prizes paid from all games of chance, itemized by week
- 3) Other costs incurred related to the conduct of games of chance
- 4) Verification and itemization of amounts distributed for public interest

b. This form is due to the Department of Revenue by February 1 for raffles conducted during the preceding calendar year.

7. Also, non-profit organizations are required to keep records related to games of chance activity to show the organization's compliance with the law.

a. Records include all sales invoices, gross receipts from each game, the cost of each game and other related expenses, the proceeds from each game, details of how the proceeds were used, a list of winners' names and addresses for prizes in excess of \$600, a record of any prize for which a W-2G was needed.

b. These records must be maintained for 5 years.

G. Small Game of Chances License for PA. Are you familiar with this license.

1. Eligible Organization Licenses

a. There are two types of licenses available to eligible organizations:

- (1) A regular license and
- (2) A monthly license.

b. An eligible organization may conduct all forms of games of chance under either license type.

Note: See above for the types of games of chance an eligible organization may conduct

2. Regular License:

a. A regular license is an annual license, and the term runs for a calendar year from the date of issuance.

b. The fee for an annual license is \$125.

3. Monthly License:

a. A monthly license is valid for 30 consecutive days from the date of issuance.

b. There is no restriction on the number of monthly licenses an eligible organization may obtain, but the licenses may not overlap.

c. The fee for a monthly license is \$25.

4. Special Raffle Permits:

a. Special raffle permits are available to regular and monthly licensees.

b. The special raffle permit authorizes a holder to conduct a raffle that exceeds the normal prize limits applicable to games of chance.

c. Special Raffle Permits authorize a holder to conduct a raffle that exceeds the normal prize limits (normal prize limits mean a single chance cannot exceed \$2,000, but total special raffle prizes awarded may not exceed \$150,000).

d. Generally, a licensed eligible organization may obtain up to 10 special raffle permits.

(1) Total prizes awarded under all special raffle permits may not exceed \$150,000.

(2) Volunteer fire, ambulance, rescue or conservation organizations may obtain up to 12 special raffle permits and award up to \$250,000 in prizes.

e. For a licensed eligible organization with a regular license, the organization can receive either 10 or 12 special raffle permits during the annual license term.

f. Because a licensed eligible organization that obtains only a monthly license does not have an annual licensed term, such organization may receive no more than 10 or 12 special permits in any calendar year

Note: Require a fee to enter and offer the possibility of winning a prize by random selection. Chapter 901 of the PA codes.

Business must be a non-profit and a charitable organization. Apply for license submitting it to the appropriate County Treasurer's office.

5. Can you cross between counties?

a. Great question. You can cross county lines but you must give written notice to the Treasurer of each county in which you intend to conduct activities.

b. The Small Games of Chance Act applies to all counties, so it would be prudent to include the eligible license number from the county in which you were licensed on this written notice.

6. Withholding

A charitable organization paying more than \$5,000 in sweepstakes lottery winnings is required to withhold income tax on the payment at the third lowest rate under §1(c) (22%).

III. Do you need or is it recommended that you become a PA Corporation?

1. There is no requirement to become a Pennsylvania Non-Profit Corporation to receive donations in the State and otherwise transact business.

2. However, there is a registration requirement of **filing Form BCO-10** if any business is transacted in the state. Therefore, yes you should at least be registered with the State.

3. Whether you become a Pennsylvania Corporation also depends on if you are already registered under the laws of another state, where you transact most of your business, where donations are received etc.

IV. State Annual Reporting

A. **BCO-23 – Public Disclosure Form**

1. **When is this form required?**

a. An organization must complete a **BCO-23** in Pennsylvania if that organization *is not required to file an IRS Form 990 (long form)*.

b. This means that *organizations who file 990-Ns, 990-EZs, or 990-PFs, or an affiliate whose parent organization files a 990 group return*, must file a BCO-23 Form in addition to filing a copy of the organization's specific shorter 990.

2. **What is the deadline to file this form?**

a. **Form BCO-23** is due 315 days after the end of the previous fiscal year.

b. This form is filed with the annual charity registration renewal.

B. **BCO-10 – Registration Statement**

1. **In General** - Form BCO-10 is a required filing from organizations that solicit charitable contributions from PA residents and are otherwise not excluded or exempt.

2. **Who is excluded or exempt from filing this form?**

a. The Pennsylvania Bureau of Corporations and Charitable Organizations has published a chart which lists the organizations excluded and exempt from filings under the PA Solicitations of Funds for Charitable Purposes Act.

b. These organizations are:

- 1) *Organizations of law enforcement personnel, firefighters, or other persons who protect the public safety.*

The stated purpose in solicitations must not include any benefit to any person outside the actual active membership of the organization.

- 2) *Religious institutions and separate groups or corporations which form integral parts of religious institutions.*

The (a) organization must be tax-exempt under the Internal Revenue Code; (b) no part of the organization's net income can inure to the direct benefit of any individual; and (c) the organization's conduct must be primarily supported by government grants or contracts, funds solicited from its own membership, congregation, or previous donors, and fees charged for services rendered.

- 3) *Educational institutions and any auxiliary associations, foundations, and support groups that are directly responsible to educational institutions.*

The curricula must be registered with, or approved by, the Department of Education, either directly or by acceptance of accreditation by an accrediting body recognized by the Department of Education.

- 4) *Hospitals and hospital foundations.*

The organization must be regulated by the Department of Health or the Department of Public Welfare.

- 5) *Veterans' organizations chartered under federal law, volunteer firemen, ambulance associations, rescue squad associations, and their auxiliaries or affiliates.*

All fundraising activities of the organization or association must be carried out by volunteers, members, or an auxiliary or affiliate thereof, who receive no compensation, directly or indirectly, for the fundraising activities.

- 6) *Public, nonprofit library organizations.*

The organization must receive financial aid from state and municipal governments and file an annual fiscal report with the State Library System.

7) *Senior citizen centers and nursing homes.*

The organization must be nonprofit and charitable **and** must have been granted tax-exempt status under the Internal Revenue Code **and** all fundraising activities must be carried on by volunteers, members, or officers, who receive no compensation, directly or indirectly, for the fundraising activities.

8) *Parent/teacher associations or organizations.*

The organization must be recognized in a notarized letter from the school district in which it is located.

9) *Any corporation established by an act of Congress of the United States.*

The corporation must be required by federal law to submit annual reports of its activities to Congress containing itemized accounts of all receipts and expenditures after being fully audited by the Department of Defense.

10) *Any charitable organization which receives gross **national** contributions of \$25,000 or less annually.*

The organization cannot compensate any person who conducts solicitations.

3. What are some of the criteria for this form, such as large donation amounts, the certificate to solicit donations.

a. Initial Filing –

Organizations who are not otherwise exempt as detailed above who solicit charitable contributions from PA residents must file this Form BCO-10 of registration initially in one of two circumstances.

(1) If the organization *uses a compensated person* (i.e., employee) to solicit contributions on behalf of the charitable

organization, the organization must complete this form prior to any such solicitations, or

(2) If the organization *does NOT compensate any person for soliciting contributions*, then the organization must complete this form within 30 days of receiving more than \$25,000 in gross contributions.

b. Filing Fees - Another area of criteria for this form is related to the filing fees. If gross annual contributions are \$25k or less, the fee is \$15; if contributions are between \$25,001 to less than \$100,000, the fee is \$100, if contributions are between \$100,000 to less than \$500,000, the fee is \$150; and if contributions are greater than \$500,000, the fee is \$250.

4. What is the deadline to submit this form?

a. As given above, the initial registration is due either prior to soliciting contributions if the solicitor is compensated or within 30 days of receiving more than \$25,000 in gross contributions if the solicitor is not compensated.

b. For renewals, the form must be filed (postmarked) no later than the 15th day of the eleventh month after the close of the organization's fiscal year.

c. For ease, the renewal date can be found on the certificate of registration sent to the organization following its initial BCO-10 filing. The renewals can be submitted at any time between the end of the fiscal year and the deadline.

D. What forms need to be submitted for a small non-profit.

1. Generally, to form a nonprofit corporation in Pennsylvania the following forms must be filed:

- a. Form DSCB:15-5306/7102B-2: Articles of Incorporation - Nonprofit
- b. Pennsylvania docketing statement
- c. IRS Form SS-4: Obtain an EIN
- d. IRS Form 1023: 501(c) Tax Exempt Application

- e. IRS Determination Letter
- f. Form PA-100: Enterprise Registration Form
- g. Form Rev-72: Sales Tax Exemption Application
- h. URS Charitable Registration, if applicable
- i. Form BCO-10: Charitable Organization Registration Statement, if not exempt

2. In addition, as alluded to in prior sections, there are annual filings that organizations should be aware of.

- a. IRS Form 990, 990-EZ, or 990N
- b. Form Rev-72: Sales Tax Exemption Application (every 5-year renewals)
- c. BCO-23 if filed anything besides a long Form 990
- d. New PA BCL Annual reports (NOT FinCEN because tax exempt)

3. Also, even if an organization is exempt from the registration requirements under The Solicitation of Funds for Charitable Purposes Act, 10 P. S. § 162.1 et seq. (Act), if it is located in Pennsylvania, it is still required to file an Institutions of Purely Public Charity Registration Statement (PDF) required annually by the Institutions of Purely Public Charity Act (PDF), 10 P. S. § 371 et seq., unless it meets one of the two exemptions listed below:

- a. Bona fide duly constituted religious institutions and such separate groups or corporations which form an integral part of a religious institution and are exempt from filing an annual IRS 990 Return; or
- b. An institution of purely public charity which receives contributions of less than \$25,000 per year provided that the institution's program service revenue does not equal or exceed \$5,000,000.

E. How do you set up login for mypath.pa.gov?

To sign up for a myPath profile, organizations should complete the following steps (also found on the Department of Revenue's website):

- 1. Access the [myPath](#) homepage

2. Select the Sign Up link in the Log In panel
3. Select Next
4. Acknowledge the Electronic Correspondence and Communications Agreement by marking the checkbox, then select Next
5. Provide the following:
 - a unique email address that is not associated with any other myPATH profile
 - a username that is a minimum of 5 characters and does not contain any special characters
 - a password that is a minimum of 8 characters and contains at least one of each of the following: uppercase and lowercase letters, numbers, and special characters
 - a primary phone number
6. Follow the remaining steps and select submit to complete registration

V. Record Retention

A. What is recommended for financial information/returns

There are a few key records that non-profits should keep permanently:

1. Articles of Incorporation or other organization document
2. Audit reports, from independent audits
3. Corporate resolutions
4. Checks
5. Determination Letter from IRS regarding tax exempt status and correspondence relating to it
6. Financial statements (year-end)
7. Insurance policies
8. Minutes of board meetings and annual meetings of members
9. Real estate deeds, mortgages, bills of sale

10. Tax returns

B. Also, the IRS recommends that the organization always keeps prompt records showing activities conducted, income/contributions received and expenses incurred.

C. Form 990 requires a showing of receipts and expenditures to show the organization still qualifies for a tax exemption.

D. Effectively, what is recommended by the IRS, the PA Department of Revenue, and other sources about non-profit organizations and charitable organizations is that a record is kept of all transactions.

1. Transactions such as contributions, purchases, sales, and payroll will generate supporting documents (e.g., grant applications and awards, sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks) that contain information to be recorded in accounting records.

2. This also includes employment tax records. The purpose of keeping such vigorous records is to have support for your reported information in the event the IRS or the Department of Revenue audits your organization.

3. An organization must keep permanent books of account or records (including inventories) sufficient to establish the amount of gross income, deductions, credits, or other matters, including the unrelated business income tax, required to be shown in any return.

a. Exempt organizations are required to keep such permanent books of account or records (including inventories) as are sufficient to establish the items of gross income, receipts, and disbursements and to substantiate the information reported on their annual information return.

b. While the records must be kept accurately, no particular form is required, so long as the IRS may ascertain whether a liability for tax exists. As a part of its records, the party must keep a copy of its returns, schedules, statements, or other documents forming a part of its return.

4. Records generally must be maintained for at least four years after the later of the due date of the tax for the period to which the records relate (whether or not a liability was incurred) or the date the tax was paid.

VI. Donations

A. How to acknowledge – What is acceptable - letter, emails. How to handle large amounts.

1. Overview - IRS Publication 1771 explains the federal tax law for organizations that receive tax deductible charitable contributions and for taxpayers who make contributions. There are three main rules:

a. Donors must have a bank record or written communication *from a charity* for any *monetary contributions* before the donors can claim a charitable contribution on their federal income tax returns. The Donor should be requesting this information if they are seeking a tax break, but non-profits should be prepared with this information.

b. Donors are responsible for obtaining a written acknowledgment *from a charity* for any *single contribution of \$250 or more* before the donors can claim a charitable contribution on their federal income tax returns.

c. Charitable organizations are required to provide a written disclosure to a donor who receives goods or services in exchange for a single payment in excess of \$75.

2. The Written Acknowledgement –

a. The written acknowledgement required to substantiate these contributions of \$250 or more should contain:

- 1) the name of the organization,
- 2) the amount of contribution,
- 3) a description (but not value) of any non-cash contributions,
- 4) a statement that no goods or services were provided by the organization (if that was the case),
- 5) a description and good faith estimate of the value of goods and services that the organization provided in return (if any), and
- 6) a statement that the goods and services that the organization provided consisted entirely of intangible religious benefits (if applicable).

b. The point to take away here is that a written acknowledgement is only required from the charitable organization when a single contribution is \$250 or more. Otherwise, the donor should be requesting it. Either way, it is probably best practice to give confirmation for all contributions.

c. When it comes to best practical way to do this, even for amounts less than \$250, it would be best for organizations soliciting contributions to be in the practice of giving written acknowledgement of all contributions, for the donor's records and their own.

d. The IRS has not created a standard format for contribution receipts, but generally the receipt can be a letter, a postcard, an e-mail message, or a form created for the purposes.

c. For online contributions, an organization should consider building an automated form to send to donors, so long as the form displays all the required information.

d. For example, for online donations, an automated form might be generated each time someone contributes that might include the following language:

“Thank you for your cash contribution of \$XXX that (organization’s name) received on DATE. No goods or services were provided in exchange for your contribution.”

e. The last line is a crucial part of this, especially if no goods or services were provided. If goods or services were provided, this receipt should be customized to explain those goods or services.

f. Regarding if there is anything extra Pennsylvania state law requires, as a reminder, organizations seeking contributions from PA residents are required to file a form BCO-10 to register with the *Commonwealth*.

g. Otherwise, there is no specific Commonwealth law about the form of acknowledgement.

h. Some examples online give the following disclosure with acknowledgements:

“[Organization] is a 501(c) 3 charitable organization, contributions to which are tax-deductible as permitted by law. The official registration and financial information of (Name of Organization) may be obtained from the Pennsylvania Department of State by calling toll free within Pennsylvania, 1-800-732-0999. Registration does not imply endorsement.”

3. Availability of Information

If an organization described in §501(c), §501(d) or §527(e) offers to sell, or solicits money for, specific information or a routine service for any individual that readily could be obtained by the individual free of charge or for a nominal charge from an agency of the federal government, the organization, when making the offer or solicitation, must make an express statement in a conspicuous and easily recognizable format that the information or service can be so obtained.

4. State Requirements - However, there is no state law that requires this disclosure. As a means of best practice, the following information should be included in an acknowledgement:

- a. The name of the 501(c)(3) nonprofit;
- b. The name of the donor;
- c. The contribution date;
- d. A description of non-cash donations (if applicable);
- e. The donation amount;
- f. Clearly state whether goods or services were exchanged for the donation;
- g. The value of the goods or services provided to the donor; and
- h. If the organization would like to include their address and EIN number, this may be a good idea.

B. Memberships with no benefits, is the membership amount fully tax deductible?

1. It depends. According to IRS Publication 526 (2022), a person may be able to deduct membership fees or dues paid to a qualified organization.

a. However, the amount deducted can be only the amount that is more than the value of the benefits received.

b. So, for this question, if there are no benefits received whatsoever, theoretically the membership amount is fully tax deductible.

2. When determining membership benefits, the following rule is also considered. The taxpayer and the organization can disregard certain membership benefits if they are received in return for an annual payment of \$75 or less.

3. These benefits include rights/privileges used frequently while a member (i.e., free/discounted parking or admission, preferred access to goods and services, or discounts on the purchase of goods or services, but NOT rights to purchase tickets for seating at a sports event as a result of membership).

4. Membership dues, fees, or assessments paid to country clubs or other social organizations cannot be deducted.

5. As a rule of thumb, membership dues will be deductible if their value exceeds what the member is getting back from the organization and the dues are paid to a valid organization (not a social organization).

C. Donation of property – How should it be recorded and for what amount. Assessed value or appraised value (for resale)?

1. Generally, these donations are categorized as “in-kind” and are valued as the fair market value on the date of the donation.

2. Regarding classification, it must be determined whether you have discretion in using or distributing the gifts given.

3. This means you would or would not have the right to choose the beneficiaries of the asset transferred. Assets should be recorded in classifications to reflect purpose and time restrictions (i.e., capital vs. non-capital).

4. Properties up for resale should be appraised for value.

D. If a building is on the property, should it be shown as a separate value from the land value?

Yes. Taxpayers are required to identify the value of non-depreciable items from the depreciable building items on the land itself. This is a critical step for analyzing possible deductions from depreciation.

E. Quid Pro Quo Contributions

1. Donors may only take a contribution deduction to the extent that their contributions exceed the fair market value of the goods or services the donors receive in return for the contributions; therefore, donors need to know the value of the goods or services.

2. An organization must provide a written disclosure statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services provided by the organization.

3. A contribution made by a donor in exchange for goods or services is known as a “quid pro quo contribution.”

4. A required written disclosure statement must:

a. Inform a donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money (and the fair market value of property other than money) contributed by the donor over the value of goods or services provided by the organization

b. Provide a donor with a good-faith estimate of the fair market value of the goods or services

5. An organization must furnish a disclosure statement in connection with either the solicitation or the receipt of the quid pro quo contribution. The statement must be in writing and must be made in a manner that is likely to come to the attention of the donor.

F. When purchasing or receiving property under the non-profit is it automatically exempt from real estate, county, and school taxes?

1. Unless it is a church, burial ground, hospital, school, etc. in Pennsylvania, a property owned by a nonprofit entity must qualify for exemption from real estate tax under a completely different legal standard.
2. First, a nonprofit must prove it is a “*purely public charity*” under Article VIII, Section 2(a)(v) of the Pennsylvania Constitution.
3. While the Constitution does not define “purely public charity”, the Pennsylvania Supreme Court in a 1985 decision - *Hospital Utilization Project v. Commonwealth*, 487 A.2d 1306 (Pa. 1985) - sets forth five

criteria that became known as the “HUP Test”. Under the “HUP Test” a nonprofit entity must:

- a. Advance a charitable purpose,
- b. Donate or render gratuitously a substantial portion of its services,
- c. Benefit a substantial and indefinite class of persons who are legitimate subjects of charity,
- d. Relieve the government of some of its burden, and
- e. Operate entirely free from profit motive.

4. Second, the nonprofit entity must satisfy five statutory requirements under the Institutions of Purely Public Charity Act under 10 P.S. §§371-385 (“Act 55”).

5. Finally, a nonprofit entity must prove it qualifies for exemption under each County’s respective County Assessment Law.

6. Importantly, the exemption is limited to “only that portion of real property which is actually and regularly used for the purposes of the institution” as vacant buildings are generally not entitled to tax exemption. It is therefore incumbent on nonprofit entities to keep a close watch on how their properties are being utilized.