

Policy and Procedures Associated with 501c3 (Non-Profit Tax Exempt) Status For Local Units under the Alabama PTA Umbrella

One of the main advantages of becoming a local PTA unit in Alabama is that you are automatically placed under the umbrella of Alabama PTA's 501c3 (non-profit tax exempt) status. What exactly does that mean, why is it so important, and why does belonging to Alabama PTA make it easier?

An employer identification number with the Internal Revenue Service is required to open bank accounts. All organizations with an EIN number are required to pay federal and state income taxes on revenues unless they are designated as a 501c3 or other 501c organization with the Internal Revenue Service. While local units may apply for their own individual 501c3 status, there is a charge of anywhere from \$650 to \$800 each time the application for tax exempt status is submitted to the Internal Revenue Service. If there is an error in the initial application, the fee is required again with resubmittal of the revised application. Since Alabama PTA has its own group exemption 501c3 status, we may add local units under our 501c3 umbrella without the lengthy and expensive application process.

Some responsibilities come with this membership benefit. First, while each local unit PTA remains autonomous and has its own individual EIN number and bylaws, these bylaws must be approved by the Alabama PTA to insure they contain the correct wording for tax exempt organizations including a dissolution clause and a statement that no member of the local unit PTA board may personally gain from the position. ***Also, each local unit is responsible for filing annual returns with the Internal Revenue Service.*** For most local unit PTAs (those with less than \$50,000 in gross revenues), that would be an electronic 990N postcard which takes about five minutes to complete online. Local unit PTAs with gross revenues of greater than \$50,000 are required to file a Form 990 EZ or Form 990 which are more complex and may require the assistance of a tax preparer. All local units under the Alabama PTA tax exempt umbrella must have the same fiscal year – June 1 through July 31.

Local unit PTAs that do not file for three consecutive years have their tax exempt status revoked by the Internal Revenue Service. Income may be taxed and penalties and fines may accrue with the IRS for failure to file. While it is possible for a local unit whose tax exempt status has been revoked to be reinstated, it is a lengthy and costly process involving a Form 1023 and up to \$425 - \$600 in reinstatement fees if reinstatement is granted. Once again, this fee is required each time the Form 1023 is submitted.

So why is it so important to have tax exempt status for your local unit PTA? First, the Alabama Department of Education requires organizations such as parent organizations and booster organizations to be tax exempt organizations in order to function within the school. Second, a bank will not open a checking account without a federal EIN number or person's social security number. The EIN or social security number associated with the account is responsible for filing the appropriate tax returns associated with revenues. Third, corporations and individuals

making donations (cash and in-kind) to your local unit PTA generally ask for your EIN number to insure that you are indeed a non-profit. Their donations to your local unit are not tax deductible for them if your tax exempt status has been revoked. Also, major fundraising companies often will not allow your local unit PTA to sign up with their companies if your EIN number and tax exempt status are invalid.

There are several other important things of which you should be aware:

1. 501c3 tax exempt status only applies to income tax, not sales tax. Local unit PTAs are not sales tax exempt organizations. A major reason that Alabama PTA has never sought sales tax exemption is that the education system in the State of Alabama is funded primarily by sales tax. Local unit PTAs should not be using the school's tax exempt number to purchase supplies, etc.
2. PTA funds should never be run through school accounts. The PTA has its own separate EIN number with the IRS as does the school system. Monies placed in school accounts become the property of the school. School system employees are not allowed to collect PTA funds or be signers on the PTA banking accounts. The PTA should have its own separate banking accounts under its EIN number. The school's EIN number should never be used for PTA accounts.
3. Alabama PTA is required to provide to the IRS annually a list of all local units under the 501c3 group exemption along with the contact information for the local unit president and treasurer. This is why it is imperative that updated local unit officer forms be submitted to Alabama PTA annually. Local units that have not remitted dues to Alabama PTA are no longer eligible to be under the Alabama PTA tax exempt umbrella, and we are required to inform the IRS annually of those EIN numbers which are no longer dues paying members.

What happens if your local unit has been revoked? Could you simply re-charter your local unit PTA under a different name? By the direction of the Internal Revenue Service, we have been instructed that we may not re-charter your local unit if you have collected any dues or conducted any fundraisers or business using the PTA name within the past twelve months. This requires a signed statement by the officers and the school principal that the unit has not been active for a period of greater than one year. While we can work with PTAs that have been dormant or inactive for longer periods of time to re-charter, this may not absolve the previous PTA from any taxes, penalties or fines.

Finally, it is important that your local unit PTA participate in training provided by your local council and Alabama PTA through workshops and conventions. Why? Approximately ten years ago, the Internal Revenue Service became more stringent in the required filing for small, non-profit organizations. Alabama PTA worked diligently to make certain this information was

disseminated to our local units and conducted numerous training workshops. We continue to offer training, guidance and support on IRS related issues. However, there are still local units that fail to file for three consecutive years and have their tax exempt status revoked.