

# WAA Chapters Business & Legal Issues

## Local Chapter Finances

Usually, chapter funds come from two resources. One is event income used for chapter mailings, meetings and other expenses incidental to operating a chapter. The other is money raised for student support.

Operating funds are usually modest, just enough to cover the year's actual costs, and you should place them in a bank account using the chapter's taxpayer ID number. Use federal tax form SS-4 to get a number. The number has no effect on the chapter's tax status.

Chapter funds and individual officer funds should never be commingled. Keeping funds separated reduces the liability of individual members and provides a mechanism for clearly tracking chapter income and expenses.

Set up chapter checking and savings (if appropriate) accounts with two authorized check-signers. Require two signatures for checks over \$500. Officers should include their titles when signing to reduce personal liability.

Each year, prepare a general chapter budget, as well as a general budget for each chapter event and activity. At least annually, and perhaps more often, prepare financial statements and file a treasurer's report to WAA. A template treasurer's report is available at [uwalumni.com/chapterleader](http://uwalumni.com/chapterleader). The treasurer should make regular reports at chapter meetings.

## Tax Status

Chapters are not tax-exempt by virtue of their relationship with WAA, which is a 501(c) 3 educational tax-exempt organization. A chapter may choose to pursue recognition on its own as a tax-exempt organization on the basis that it is an educational or social organization. It is recognition as an educational organization that allows donors to deduct scholarship contributions.

The recognition process requires professional assistance, and chapters should undertake it only if careful evaluation suggests a clear return on investment. If annual receipts total more than \$5,000 and status as an educational organization is desired, the IRS requires chapters to apply for a 501(c) 3 exempt status. Typically, a tax-exempt status is useful when a chapter handles large sums on an annual and ongoing basis, because it allows gifts to the chapter to be tax-deductible for the donor. Of course, it also requires that chapters keep records, issue receipts for contributor income tax purposes, and file annual federal income tax returns. The exemption also allows chapters to apply for nonprofit mail permits. In Wisconsin, some chapters will also benefit from additional liability protection for volunteer leaders of tax-exempt corporations. However, each state may vary, check with the IRS.

All tax-exempt chapters grossing \$25,000 or more per year from all sources of income are

required to file IRS Form 990 annually. All tax-exempt chapters earning unrelated business income (e.g., merchandise sales) of \$1,000 or more are required to file IRS Form 990T annually.

For chapters that are not tax-exempt, making donations payable to the UW Foundation or to the alumni association (not to the chapter) is the only way for the donor to receive a tax deduction. Forward all checks to the association so that individual receipts can be issued to support the deduction.

If an individual is getting anything in return for his or her scholarship contribution (a meal, for example), its market value must be subtracted from the total contribution, and the balance thereby becomes the real donation and the tax-deductible amount.

### **Steps for Consideration in Applying for 501(c) 3 Status**

time to establish a solid base of chapter leadership and programming before you proceed. You want to be well past the developmental stage before going any further. This could take a number of years, and some chapters may never have the need to pursue 501(c) 3. Secure a Federal Employer Identification Number (FEIN) by submitting an SS-4 form to the IRS. You need this number to open a checking account in the chapter's name and as a first step in applying for exempt status. You can file online through [www.irs.gov](http://www.irs.gov).

#### **Incorporation**

From a risk standpoint, incorporating minimizes liability to chapter members. It enables the chapter to secure insurance coverage, and puts the chapter on the path for 501(c) 3 status. Some issues to address in this process:

Incorporation is a state procedure, so criteria vary from state to state. Therefore, it is recommended that you seek assistance from local accountant or attorney. Identify which branch of state government oversees the process as it varies from state to state. Do a bit of research. Visit Web sites such as [www.bizfilings.com](http://www.bizfilings.com). There will be a filing fee, generally ranging from \$100 to \$500. If your chapter's net revenue is \$5,000 or more per year, the IRS threshold requiring exempt status, you should explore the possibility of incorporating and 501(c) 3.

501(c) 3. While this is a federal designation, each state has laws influencing 501(c) 3 activity, and each chapter may be somewhat unique in how it answers various questions. 501(c) 3 status means that you are exempt from income tax and that individual contributions to the chapter (not just to the scholarship fund) are tax deductible. This does NOT mean that the chapter is exempt from state sales tax. That involves obtaining a seller's permit from the state.

Again, it is recommended that you:

Secure local assistance. Explore requirements on [www.irs.gov](http://www.irs.gov).

Realize that it may be a long process (6 to 9 months).

State Sellers Permit. This is needed in order for the chapter to be exempt from state sales tax.

Contact appropriate state agency for requirements.

While we don't have the resources to explore procedures for every chapter in every state, we are in the process of outlining what is required in the state of Wisconsin. Watch the chapter leader Web page for details.

## **Potential Conflicts of Interest**

It is the obligation of each officer, board member or committee member to be aware of potential conflicts of interest involving personal financial transactions with the chapter. For example, if the chapter purchases food, beverages or other goods or services from the member or a business where a member had a financial interest, that member should fully disclose that transaction to the board. Thereafter, the officer, board member or committee member shall refrain from voting on or discussing matters related to that issue so as to avoid a conflict of interest.

## **Liability Factors for Chapters**

The best protection a chapter has against legal liabilities is to use care and discretion in planning activities and to be sure that establishments with which it does business have adequate insurance coverage.

Alumni chapters providing a variety of activities for their members are exposed to various risks. Since it is not possible at the present time to provide a general liability policy to cover all alumni chapters, the information below should make you aware of the risks and suggest ways to deal with them.

First and foremost, WAA's liability insurance does not cover alumni chapter programs. This is true because of the extreme diversity of chapter programs, and the fact that such coverage would be prohibitively expensive and require central administration of all chapter funds.

You should know that legally WAA is not able to accept liability for the actions or omissions of local chapter officers, or for liability that may arise if a chapter officer improperly carries out the activities of an alumni chapter in a negligent or reckless way.

## **Limit Potential Liability**

- Be sure to use the services of a professional caterer or vendor whenever liquor or food is served at a chapter function. Individual directors and officers should ask their agents about the wisdom of obtaining additional personal liability coverage. Consult with your insurance agent when planning an activity to determine whether coverage is advisable or available for that kind of function. Chapters should consider getting liability coverage, including host liquor coverage and directors and officers (D&O) coverage. Consider the relative costs and benefits of annual coverage versus per-event coverage.
- Chapters may want to consider incorporating, as this helps restrict liability to the organization itself and to its directors and officers, rather than to every member. Members are still liable for their individual actions.

- In all areas of chapter operation, the key to avoiding liability is exercising care and using common sense in planning events. It is much better to avoid problems than to resolve them after they occur.