

4-H Tax Options

Option 1 School Activity Accounts

4-H clubs that meet in the school or who are affiliated with a local school can place money in the school activity fund and receive tax exempt status from the school. The club would be responsible to follow the school's policies regarding check requests, reports, etc. In some cases this option might also allow the club to avoid paying taxes on purchases if they were made directly by the school.

Option 2 County Agency Fund (recommended by Internal Audits)

Local club accounts will be closed prior to July 1, 2012 and all funds moved into sub-accounts within the County Agency Fund. Based upon the amount of activity, the county administrative assistant might need to work with club treasurers to set up some operational procedure for handling and verifying deposits, distributions, etc.

With this system the county could also transfer funds to the Oklahoma 4-H Foundation, where each county currently has an account. The Foundation would not set up sub accounts for each local club but would provide regular account balances to the counties. Counties would need to keep track of the individual club funds. These would not be invested funds on behalf of the counties and interest gained would be retained by the 4-H Foundation. However, if the county had accumulated a large amount of funds they could consider setting up endowments within the Foundation.

Option 3 Local 501c3

Local clubs or counties could apply for their own 501c3 status and set up an accounting system and report their own tax liabilities to the IRS. Current county 501c3 foundations in the few counties that have done this will need to apply for a Group Exemption Number if the local clubs wish to be subordinates of the foundation or the clubs need to move their funds into the established local foundation. In other words if the county leader's council is a 501c3 it does not cover the other clubs in the county unless they are covered by a GEN or were originally set up as part of that county foundation.

For Counties, Boards, Shows etc that may wish to become a 501c3 the following information will be helpful. Keep in mind that groups like livestock show committees that handle premium sale money might have a hard time passing the test unless most of the money they handles is not restricted. In other words their primary purpose can not be to receive money from a buyer and cut a check to an exhibitor. These transaction are not charitable because they are not gifts to 4-H they are income to the exhibitor and are to be reported by the exhibitor in most cases.

Exemption Under Section 501(c)(3)

A section 501(c)(3) organization is an organization (i.e., a corporation, trust, or unincorporated association) that is exempt from federal income tax because it is organized and operated exclusively for certain tax-exempt purposes, such as charitable, educational, religious or scientific purposes. These organizations take their name from the part of the Internal Revenue Code that describes them, section 501(c)(3). Charitable contributions made to these organizations by individuals and corporations generally are tax deductible.

Most section 501(c)(3) organizations must apply to the IRS for recognition of tax-exempt status. The IRS can recognize an organization as a 501(c)(3) organization only if the organization meets the organizational test and the operational test under section 501(c)(3).

This test relates to an organization's organizing documents, such as its articles of incorporation, charter, trust document, etc. To qualify for tax-exemption under section 501(c)(3), an organization must be organized as a corporation, trust or unincorporated association. The organizing documents must establish that the organization was created exclusively for one or more of the purposes described in section 501(c)(3), such as charitable, educational, religious, or scientific purposes. The documents must also require that assets will be used only for those purposes if the organization dissolves. The IRS provides sample organizing documents that contain the required provisions in *Life Cycle of a Public Charity* at <http://www.irs.gov/charities/charitable/article/0,,id=122725,00.html>

For more information, see Publication 4220, Applying for 501(c)(3) Tax-Exempt Status.
How does an organization apply for recognition of its tax-exempt status?

Before an organization can apply, it must have an Employer Identification Number or EIN. Once it receives its EIN, the organization completes Form 1023, Application for Recognition of Exemption, and sends the form to the IRS, along with a user fee and any schedules and attachments requested in the instructions.

For Frequently Asked Questions about Form 1023, go to www.irs.gov/charities/article/0,,id=130101,00.html and see Publication 4220, Applying for 501(c)(3) Tax-Exempt Status.