

The Delta Chi Fraternity, Inc.

TAX GUIDELINES

FRATERNITY CHAPTERS AND HOUSE CORPORATIONS MUST FILE FEDERAL TAX FORMS. FAILURE TO COMPLETE REQUIRED TAX FORMS HAS RESULTED IN SEVERE PENALTIES.

CLASSIFICATION OF FRATERNITIES

Fraternities are usually classified in the 501(c)7 category. This part of the Internal Revenue Code covers social clubs and organizations but may also include house corporations if they conduct social activities. Those organizations which apply for and gain an exemption are exempt from paying income tax as defined under section 501(a) of the Internal Revenue Code. Because chapters and colonies are subordinates of The Delta Chi Fraternity, a 501(c)7 organization, they are automatically exempt. House corporations, as legally separate organizations, must apply for their own exempt status.

GENERAL RULES

Here are some general rules for 501(c)7 organizations:

1. No charter, constitution, by-law or written policy statement may contain any provision providing for discrimination against any person on the basis of race, color or religion.
2. No part of the organization's net earnings may inure to the benefit of any person having personal and private interest in the activities of the organization.
3. Organizations must possess characteristics of a club.
4. Membership must be limited. There must be limitations on admission to membership within the character of the organization.
5. In general, the organization's support must be primarily from membership fees, dues and assessments.
6. The organization's objectives must be for pleasure, recreation and other not-for-profit purposes.
7. Minimal business activities with the general public are allowed and the organization's facilities must be for members and their guests (not open to the general public). Up to 15% of this type of income is allowed.
8. Not more than 35% of the organization's income, including the 15% rule, is permitted to be from sources outside its membership without losing exempt status.

EMPLOYER IDENTIFICATION NUMBER

Any organization which receives an exemption or falls under a group exemption 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 Internal Revenue Service (IRS) is used to obtain an EIN.

FEDERAL TAX CALENDAR (FOR FISCAL YEARS ENDING JUNE 30)

- **By January 31:** Give each employee a completed W-2 - Wage and Tax Statement. File Form 940 - 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.
- **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 employee's 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:** All employees must file a new W-4.
- **By October 31:** File Form 941 and pay any undeposited income and social security taxes.
- **By November 15:** File Form 990 or 990EZ - for tax exempt organizations whose fiscal year ends June 30. If your fiscal year does not end on June 30, you must file this form on the 15th day of the 5th month following your fiscal year end.

NOTE: Know when your fiscal year ends as the due dates for any of the above forms may change accordingly.

FORMS TO USE

The Form 990EZ is very similar to, but much shorter than the Form 990. For the most part it is self-explanatory. File Form 990EZ only if gross receipts are less than \$100,000 and total assets are less than \$250,000. Otherwise file Form 990.

Forms 940 and 941 are for any organization that employs a cook or a housemother, or any other employees on a full or part-time basis. These forms are filed quarterly in order to report all compensation paid to the employee(s) of record during the stated time period. These are filed by the end of the month following the end of the quarter. The 940 is largely based on the 941.

New employees should complete a Form W-4 as soon as they begin work. Once the number of allowances are determined on the W-4, the organization can then use that number to compute the amount of income tax to withhold from their pay. To accurately acquire this information, you must know how the organization pays its employee(s), that is whether it is weekly, bi-weekly, monthly, etc.

Form W-2 must be completed for each of the organization's employees at the end of the calendar year. This form is simply a summary of the total wages that the organization paid them in the calendar year as well as all of the income and social security taxes the organization withheld. Copies B, C and 2 should be given to your employees by January 31. Copy A, along with a completed W-3 should be filed with the Social Security Administration. It should be filed by February 28. Form W-3 should be filed with Copy A of the W-2. It should be filed by February 28.

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 Form 2758, before the respective form'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 The Delta Chi Fraternity or any of its subordinate chapters or colonies are *not* tax deductible to the individual making the contribution. Contributions also made to any of the chapter house corporations or Alumni Boards of Trustees are also *not* tax deductible. Contributions to 501(c)3 organizations, such as the Delta Chi Educational Foundation, are eligible for tax deductibility in the United States to the individual making the contribution.

SOLICITATIONS

According to Federal Law, any printed solicitation by a chapter or Alumni Board of Trustees for donations must be accompanied by a statement (with typeface equal to or greater than that used for the solicitation) saying that "Any contribution made to this organization is not tax deductible."

UNRELATED BUSINESS INCOME

If the organization has unrelated business income (interest, investments, etc.) over a certain amount, it must be reported to the IRS. Consult local tax counsel for more information on what forms to use and when they are due. Generally, all forms must be turned in on the 15th day of the 5th month after the close of the chapter's accounting period. Taxes may be due on this type of income.

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 Delta Chi Fraternity. Non-member income (income from any non-member for room, board, parking privileges, fund-raising, 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

It is common for chapters to think that not-for-profit organizations are also exempt from paying sales or property taxes. This is wrong. Sales and property taxes must be paid by chapters in every state except for Indiana (after a special exemption has been applied for and granted). It is illegal to allow local merchants to give an organization exemption from sales tax when the chapter is clearly not exempt as defined by the IRS.

SEEKING TAX COUNSEL

It is strongly suggested that when the chapter has any questions regarding the filing of taxes, the chapter should consult tax counsel. The tax counsel that the chapter chooses should be one that has a thorough knowledge of not-for-profit organizations, specifically Greek lettered organizations. The best way to seek out tax counsel is to talk with other organizations using tax counsel, or speak with the Greek Advisor. They should be able to point the chapter in the right direction.

IMPORTANT PHONE NUMBERS

Federal Tax Office (to request tax forms): 1-800-424-3676

The local tax office can give you assistance. Check the Yellow Pages for the number.

PUBLICATIONS AVAILABLE

The IRS provides the following publications:

- Circular E - Employer's Tax Guide- Instructions for Form 990
- Publication 393 - Federal Employment Tax Forms
- Publication 557 - How to apply for and retain exempt status for your organization.

NOTE: *The information herein is not intended to provide legal advice for individual problems which may arise in your chapter. The information in this guide may not be applicable to your situation. You are directed to seek advice from a certified accountant or attorney specializing in this area of law.*