

## MEMORANDUM

TO: ALL STATE AND LOCAL COUNCILS AND ASSEMBLIES IN THE  
UNITED STATES

FROM: PAUL R. DEVIN  
SUPREME ADVOCATE

DATE : MARCH 2007

SUBJECT: 2006 ANNUAL FEDERAL TAX INFORMATION

This memorandum is intended to provide information to U.S. councils and assemblies as they prepare to complete their annual tax filings for taxable year 2006. While this memo provides important, basic information relating to the treatment of the Order's councils and assemblies under the tax laws, it is assumed that councils and assemblies will receive their own legal and tax advice from local professionals. **Each council and assembly must carry out its own responsibilities related to its federal tax information returns. Questions regarding these issues may be directed to the Supreme Advocate's Office.**

### **I. General Information**

The Knights of Columbus is a fraternal benefit society under Internal Revenue Code Section 501(c)(8). All councils<sup>1</sup> and assemblies in the United States are exempt from federal income tax under Section 501(c)(8) of the Internal Revenue Code (IRC), as "fraternal lodges"; provided their Employer Identification Number (EIN) is listed with the Supreme Advocate who will in turn list the number with the IRS for inclusion in the group exemption listing.<sup>2</sup> Included with the enclosed materials is a 1940 letter from the Internal Revenue Service (IRS) recognizing exemption for the Supreme Council and its subordinate units, along with the most recent IRS letter confirming this exemption. (See Attachment 1.) Each assembly and council is nevertheless required to obtain its own Employer Identification Number (EIN) from the IRS and submit its own annual tax filing. (We ask, however, that you do **not** send a copy of your annual filing to the Supreme Council.) Further, each council and assembly also must provide its EIN

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<sup>1</sup> For the purposes of this document, the term "council" applies to both state and local councils of the Order.

<sup>2</sup> The Order itself is classified under the federal tax code as a "fraternal benefit society."

and written authorization to the Office of the Supreme Advocate if it is to be included under the IRS's group exemption. Please note that the group exemption ruling afforded to the Supreme Council and its assemblies and councils does not extend to council home corporations or home associations, which are separate legal entities from the councils. Councils and assemblies should have property casualty liability insurance coverage. Council home corporations should also have property casualty liability insurance coverage. No such insurance applicable to the Supreme Council extends to councils and assemblies or to council home corporations.

The IRS group ruling that exempts the Supreme Council and its assemblies and councils from federal and state income tax does not exempt them from other state and local taxes. For example, assemblies and councils may be subject to state or local sales taxes or property taxes, unless state or local laws specifically exempt them. Typically, states grant sales tax exemptions only to groups deemed charitable organizations under IRC Section 501(c)(3); this does not extend to a Section 501(c)(8) fraternal organization such as the Supreme Council or its subordinate councils. Each assembly and council should consult its own tax advisor, accountant or legal counsel to determine whether any exemption from state and local taxes is available.

## **II. Who must file**

Under IRC Section 6033, tax exempt organizations with annual gross receipts over \$25,000 must file an annual information return that indicates:

- the organization's income;
- the organization's expenses;
- changes in the organization's fund balances; and
- a balance sheet.

**Each assembly and council with receipts over \$25,000 must file a return; there is no group or consolidated Form 990 filing.** This report must be filed by the 15<sup>th</sup> day of the fifth month following the end of an organization's annual accounting period.<sup>3</sup> Please note that federal law imposes a penalty of \$20 per day, up to a maximum of \$10,000, for incomplete or late filing, unless reasonable cause can be shown. This filing<sup>4</sup> should be sent to:

Internal Revenue Service Center  
Ogden, UT 84201-0027.

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<sup>3</sup> For example, if a council's accounting period ends on December 31<sup>st</sup>, it must file by the following May 15<sup>th</sup>; if its accounting period ends on June 30<sup>th</sup>, it must file by November 15<sup>th</sup>.

<sup>4</sup> If your organization is required to file a report, but did not automatically receive the appropriate tax forms and instructions from the IRS, such forms and instructions may be received from your local IRS office, by calling the IRS forms number (1-800-829-3676), or by downloading forms from the IRS website at [www.irs.gov](http://www.irs.gov)). Requests for an extension to file (Form 8868) should be sent to the same address.

Organizations with annual gross receipts of \$25,000 to \$100,000 should use Form 990-EZ, while organizations with annual gross receipts in excess of \$100,000 should use Form 990. Organizations with gross income from an unrelated business in excess of \$1,000 should file Form 990-T (Exempt Organization Business Income) to compute and pay the tax due. An organization with gross receipts of \$25,000 or less is not required to file with the IRS unless its year-end assets were \$250,000 or more.<sup>5</sup>

For your convenience, I also have attached supplemental instructions to assist your council in filing its Form 990 or Form 990-EZ. (See Attachments 3 and 4.) These instructions should not be used for any tax filings of your home corporation, if your council has one.

**THERE IS NEW LEGISLATION THAT WILL REQUIRE ALL COUNCILS, ASSEMBLIES AND HOME CORPORATIONS TO FILE ELECTRONICALLY AN ANNUAL NOTICE WITH THE IRS CONTAINING BASIC CONTACT AND FINANCIAL INFORMATION. BEGINNING IN 2008 FOR THE 2007 YEAR, THIS NEW REQUIREMENT WILL APPLY TO ORGANIZATIONS THAT CURRENTLY DO NOT HAVE AN ANNUAL FILING REQUIREMENT BECAUSE THEIR GROSS RECEIPTS ARE LESS THAN \$25,000. TO AVOID LOSS OF EXEMPT STATUS, EACH COUNCIL AND ASSEMBLY SHOULD BE SURE IT HAS ITS OWN EMPLOYER IDENTIFICATION NUMBER (EIN) ISSUED BY THE IRS.**

### **III. Maintaining Tax Files**

Each council and assembly should maintain a tax file that includes copies of the following:

- the organization's by-laws and all amendments;
- the organization's minutes for the last four years;
- IRS group exemption letters dated October 25, 1940 and October 15, 1998 (See Attachment 1.);
- Forms 990 and/or Forms 990-EZ filed for the last ten years;
- The following forms filed by the council in the last ten years: Summary Form 1096 and Information Return for Income Payments (Form 1099), if any; Summary Form W-3 and Income Tax Withheld on Wages (Forms W-2), if any;

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<sup>5</sup> It is suggested that each organization use the "Worksheet for IRS Form 990 and Form 990-EZ Gross Receipts Test" to determine which filing, if any, must be made. (See Attachment 2.) Organizations should carefully read the Supplemental Instructions for IRS Form 990-EZ (See Attachment 3) and Form 990 (See Attachment 4), and should retain copies of their worksheet calculations. The instructions for Form 990 and Form 990-EZ are combined into a single booklet with portions that apply to both forms, and portions that apply to each form separately.

- the organization’s application (Form SS-4) for its Employer Identification Number;
- tax returns for the last five years filed under the Federal Insurance Contribution Act and the Federal Unemployment Tax Act, if any;
- any prior revenue agent examination report; and
- Form 990 and Form 990-EZ worksheets for those years, if any, in which gross receipts were less than the \$25,000 threshold amount.

Faithful Comptrollers and Financial Secretaries<sup>6</sup> should maintain, at the organization’s principal place of business, a file that includes the above-mentioned group exemption letters, and Form 990s and/or Form 990-EZs filed in the previous three years. Under federal law, this file must be open to **public** inspection during regular business hours, and copies of the filings must be provided, after payment of copying costs, to anyone requesting them.<sup>7</sup>

#### **IV. Home Corporations**

##### **A. Defined**

Councils and assemblies are unincorporated associations that, under state law, are not eligible to be incorporated or hold title to real estate. State law, however, allows councils to establish home corporations as non-stock, non-profit corporations<sup>8</sup> that may qualify as non-profit tax-exempt organizations, either as a Section 501(c)(2) title holding company, or as a Section 501(c)(7) social club.<sup>9</sup> To qualify as a 501(c)(2) title-holding company, the home corporation's income must be solely from the rental of the real estate, or other passive sources. If a home corporation receives income from business sources, such as from the operation of a bar, or from gaming, then it must operate as a Section 501(c)(7)

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<sup>6</sup> Councils must comply with the requirements of the Social Security Act in connection with the compensation paid to their Financial Secretaries. The IRS has determined that, for the purposes of the Social Security Act, the relationship of employer-employee exists between the local council and the Financial Secretary, but not between the Supreme Council and the Financial Secretary. The annual award from the Supreme Council to the Financial Secretary is non-employee compensation, self-employment income.

<sup>7</sup> Failure to comply with this requirement is punishable, under IRC Section 6652, by a fine of \$20 per day of non-compliance, up to a maximum of \$10,000. In addition, a \$5,000 penalty may be assessed against any person who willfully fails to provide access to these returns. See instructions for IRS Form 990 and 990-EZ, pages 10-12, for IRS requirements for inspection and making copies.

<sup>8</sup> Model Articles of Incorporation and by-laws for home corporations are available from the Office of the Supreme Advocate. Each council establishing a home corporation should obtain counsel to ensure compliance with all requirements under state law.

<sup>9</sup> Funds raised by a council to acquire, build, or maintain a home corporation building are not recognized by the IRS as charitable contributions and are not deductible by the donor. Further, the raising of such funds by the council is not considered a charitable activity. (See *Revenue Ruling* 56-329.)

social club. Liquor licenses, if any, must be held in the name of the home corporation and not by the council itself. Membership in the home corporation is confined to those council members in good standing; when a person's membership is terminated, his home corporation membership terminates as well. Home corporations should have property casualty liability insurance coverage. Donations to a home corporation are not deductible.<sup>9</sup>

## **B. Home Corporations Subject to Tax**

Home corporations **are not** subordinate units of the Knights of Columbus and **are not** tax-exempt under the Order's group ruling. Each home corporation must obtain its own Employer Identification Number (EIN) separately from the council forming the home corporation. Each home corporation also must file its own application for tax exempt status on Form 1024. A home corporation may be required to file its own Form 990 or Form 990-EZ, depending on its calculations under the Gross Receipts Test. (See Attachment 2. Your local tax advisor can assist you on this question. Be aware that the additional instructions in Attachments 3 and 4 do not apply to filings for home corporations.) A home corporation should also maintain its own records and bank accounts. Donations to a home corporation are not deductible.<sup>9</sup>

Please note that a Section 501(c)(7) social club may be subject to tax on unrelated taxable business income, if profits come from non-members (including investment income); such clubs may be required to file IRS Form 990-T and pay tax on such income, if such gross income exceeds \$1,000. Both 501(c)(2) and 501(c)(7) organizations are subject to property tax and sales tax, unless exempt under a specific state statute.

## **V. Pass-Through Charitable Fundraising**

As indicated above with respect to the establishment of home corporations (see footnote 9), contributions to councils for fraternal or social purposes, such as dues, are not deductible by the donor. As such, as a general rule, all solicitations for fraternal funds must bear the following statement: "Contributions, gifts, etc., paid or given to the [name of receiving council, chapter, assembly, etc.] are not deductible as a charitable contribution."

Please note that, under IRC Section 170(c)(4), contributions to a council by an individual (and not by a business or corporation)<sup>10</sup> may be deductible, provided that such funds are set aside and used exclusively for charitable purposes.<sup>11</sup> If such proceeds are to be used solely for such charitable purposes, the solicitation, tickets, or advertising used in the fundraising do not need to be marked with the aforementioned disclaimer. However, if any part of the proceeds is to be used

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<sup>10</sup> As such, corporate matching donations to a council, or the donation of corporate goods and services, are not deductible.

<sup>11</sup> Such funds may not be commingled in any manner and must be totally segregated from other council funds.

for a non-qualified purpose, then the materials must contain the disclaimer.<sup>12</sup> A bequest to a fraternal benefit society from an individual's estate may be deductible if the will directs its use exclusively for religious, scientific, literary or educational purposes, not fraternal or social, under IRC Sec. 2055(a)(3).

If a subordinate unit of the Knights of Columbus, State Council, council or assembly utilizes the pass-through charitable fund raising mechanism of IRC Sec. 170(c)(4) or IRC Sec. 2055(a)(3) and has gross receipts of \$25,000 or more excluding the pass-through receipts, it must report total pass-through contributions received to the IRS by filing Schedule B (Form 990, 990-EZ or 990-PF). Individual contributions in aggregate for the year of \$1,000.00 or more must also be reported on Schedule B. Contributors of \$250.00 or more must be provided a written acknowledgement substantiating the contribution (see IRS Publication 1771). If a subordinate unit of the Knights of Columbus, State Council, council or assembly has gross receipts of less than \$25,000 excluding pass-through receipts, then it need not file Form 990 or 990-EZ unless its year-end assets were \$250,000 or more.

## **VI. Licensed Gaming**

Many states allow non-profit tax-exempt organizations, including fraternal benefit societies like the Order, to engage in charitable gaming in order to raise funds for charitable organizations and activities. Such charitable gaming may include instant tickets, lotteries, pull tabs, raffles and other gaming activities. The exempt organizations conducting gaming must include gaming proceeds in their gross receipts when making their annual Form 990 calculations. Such gaming activities must be conducted in full compliance with all applicable local, state, and federal laws, and the responsibility for such compliance rests with the officers of the relevant council or assembly.<sup>13</sup>

Certain bingo games may be exempt from the tax on unrelated business taxable income if they meet the requirements of IRC Sec. 513(f) and might be excluded from the wagering tax under IRC Sec. 4401. Income from the sale of "instant bingo" tickets or "bingo" pull-tabs does not qualify for the bingo exclusion.

Councils and assemblies engaged in charitable gaming must review, in consultation with legal or tax counsel, relevant IRS forms and publications. Such forms and publications may be received from the IRS from the sources indicated in footnote 4 above. Please note that gross

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<sup>12</sup> All solicitations for contributions -- including dues statements and all types of advertising -- that are not to be used exclusively for charitable purposes, must include the disclaimer of deductibility. Failure to use the disclaimer carries a \$1,000 a day penalty for each failure to disclose up to a maximum of \$10,000. Councils and assemblies should maintain a current file that indicates compliance with this provision of federal law.

<sup>13</sup> IRS Publication 3079 discusses tax exempt organizations and gaming and informs organizations of their potential liability for income, employment, and excise taxes. Depending upon the type of gaming activity, an organization may be required to file a monthly tax return (Form 730) and pay excise tax on its gross receipts. The organization may also have to include the net receipts in filing requirements for Form 990-T and possibly pay tax on unrelated taxable income resulting from the activity. There may also be other filing requirements concerning reporting income and withholding tax on winnings (Form W-2G), employment tax filings for employees, and excise taxes or occupational taxes (Form 11C) concerning the gaming.

receipts from such gaming must be included under the Employer Identification Number (EIN) of the council, assembly or home corporation actually conducting the gaming operations.

## **VII. Future Mailings**

The Supreme Council is no longer doing paper mailings of this information. Starting this year, all Form 990 information is being sent to you via electronic mail. For those of you who may not yet have an email address, this information will also be posted on our website under For Officers/Reports Online/Support Materials. If you have not yet provided your email address to the Supreme Council, please be sure to do so immediately so that you will receive all future mailings. **We should have your email address on file to ensure you receive all updated information.**

## **VIII. Conclusion**

**Again, each council and assembly must carry out its own responsibilities related to its federal tax information returns. If necessary, councils should rely on the advice of local accountants and tax counsel.** Questions for the Supreme Council should be directed to the Supreme Advocate's Office.

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<sup>4</sup> If your organization is required to file a report, but did not automatically receive the appropriate tax forms and instructions from the IRS, such forms and instructions may be received from your local IRS office, by calling the IRS forms number (1-800-829-3676), or by downloading forms from the IRS website at [www.irs.gov](http://www.irs.gov)). Requests for an extension to file (Form 8868) should be sent to the same address.

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- tax returns for the last five years filed under the Federal Insurance Contribution Act and the Federal Unemployment Tax Act, if any;
- any prior revenue agent examination report; and
- Form 990 and Form 990-EZ worksheets for those years, if any, in which gross receipts were less than the \$25,000 threshold amount.

Faithful Comptrollers and Financial Secretaries<sup>6</sup> should maintain, at the organization's principal place of business, a file that includes the above-mentioned group exemption letters, and Form

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990s and/or Form 990-EZs filed in the previous three years. Under federal law, this file must be open to **public** inspection during regular business hours, and copies of the filings must be provided, after payment of copying costs, to anyone requesting them.<sup>7</sup>

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<sup>7</sup> Failure to comply with this requirement is punishable, under IRC Section 6652, by a fine of \$20 per day of non-compliance, up to a maximum of \$10,000. In addition, a \$5,000 penalty may be assessed against any person who willfully fails to provide access to these returns. See instructions for IRS Form 990 and 990-EZ, pages 8-10, for IRS requirements for inspection and making copies.

<sup>8</sup> Model Articles of Incorporation and by-laws for home corporations are available from the Office of the Supreme Advocate. Each council establishing a home corporation should obtain counsel to ensure compliance with all requirements under state law.

<sup>9</sup> Funds raised by a council to acquire, build, or maintain a home corporation building are not recognized by the IRS as charitable contributions and are not deductible by the donor. Further, the raising of such funds by the council is not considered a charitable activity. (See *Revenue Ruling* 56-329.)

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If a subordinate unit of the Knights of Columbus, State Council, council or assembly utilizes the pass-through charitable fund raising mechanism of IRC Sec. 170(c)(4) or IRC Sec. 2055(a)(3), it must report total contributions received to the IRS by filing Schedule B (Form 990, 990-EZ or 990-PF). Individual contributions in aggregate for the year of \$1,000.00 or more must

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<sup>10</sup> As such, corporate matching donations to a council, or the donation of corporate goods and services, are not deductible.

<sup>11</sup> Such funds may not be commingled in any manner and must be totally segregated from other council funds.

<sup>12</sup> All solicitations for contributions -- including dues statements and all types of advertising -- that are not to be used exclusively for charitable purposes, must include the disclaimer of deductibility. Failure to use the disclaimer carries a \$1,000 a day penalty for each failure to disclose up to a maximum of \$10,000. Councils and assemblies should maintain a current file that indicates compliance with this provision of federal law.

also be reported on Schedule B. Contributors of \$250.00 or more must be provided a written acknowledgement substantiating the contribution (see IRS Publication 1771).

## **VI. Licensed Gaming**

Many states allow non-profit tax-exempt organizations, including fraternal benefit societies like the Order, to engage in charitable gaming in order to raise funds for charitable organizations and activities. Such charitable gaming may include instant tickets, lotteries, pull tabs, raffles and other gaming activities. The exempt organizations conducting gaming must include gaming proceeds in their gross receipts when making their annual Form 990 calculations. Such gaming activities must be conducted in full compliance with all applicable local, state, and federal laws, and the responsibility for such compliance rests with the officers of the relevant council or assembly.<sup>13</sup>

Certain bingo games may be exempt from the tax on unrelated business taxable income if they meet the requirements of IRC Sec. 513(f) and might be excluded from the wagering tax under IRC Sec. 4401. Income from the sale of "instant bingo" tickets or "bingo" pull-tabs does not qualify for the bingo exclusion.

Councils and assemblies engaged in charitable gaming must review, in consultation with legal or tax counsel, relevant IRS forms and publications. Such forms and publications may be received from the IRS from the sources indicated in footnote 4 above. Please note that gross receipts from such gaming must be included under the Employer Identification Number (EIN) of the council, assembly or home corporation actually conducting the gaming operations.

## **VII. Conclusion**

**Again, each council and assembly must carry out its own responsibilities related to its federal tax information returns. If necessary, councils should rely on the advice of local accountants and tax counsel.** Questions for the Supreme Council should be directed to the Supreme Advocate's Office.

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TREASURY DEPARTMENT  
WASHINGTON

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

IT:P:T:1  
WLC

OCT 25 1940

Knights of Columbus,  
c/o Mr. Luke E. Hart,  
Supreme Advocate,  
LaSalle Building,  
St. Louis, Missouri.

Sirs:

Reference is made to the information submitted by you for use in determining your status and the status of your local subordinate councils for Federal income and employment tax purposes.

It is the opinion of this office, based upon the evidence presented, that you and your subordinate councils listed in the "Directory of Councils and Officers, 1939-40" are exempt from Federal income tax under the provisions of section 101(3) of the Internal Revenue Code and the corresponding provisions of prior revenue acts.

Accordingly, you and your subordinate councils will not be required to file returns of income unless there is a change in the character of your organization, the purposes for which you were organized or your method of operation, or that of your subordinate councils. Any such changes should be immediately reported by you to this Bureau in order that the effect of such changes upon the present exempt status may be determined. You should furnish the Bureau annually, on the calendar year basis, lists in quadruplicate showing the names and addresses of any councils which were chartered during the calendar year and the names and addresses of any councils which for any reason ceased to exist. Such annual lists should be accompanied by a statement, sworn to by one of your principal officers, as to whether or not the information heretofore submitted by you and on which this ruling is based, is applicable in all respects to the new councils appearing on the lists, and should be forwarded so as to reach this office not later than February 15 of the following year.

The exemption evidenced by this letter relates specifically to Federal income tax, but since any organization which is exempt from such tax under the provisions of section 101 of the Internal

- 2 -

Knights of Columbus,  
St. Louis, Missouri.

Revenue Code also is entitled to exemption from the capital stock tax pursuant to the express provisions of section 1201(a)(1) of the Internal Revenue Code, you and your subordinate councils will not be required to file capital stock tax returns for future years so long as the exemption from income tax is effective.

The determination of the status of your organization and subordinate councils for Federal employment tax purposes will be made the subject of a separate communication.

A copy of this ruling is being transmitted to the collectors of internal revenue for the several districts in which you and your subordinate councils are located.

By direction of the Commissioner.

Respectfully,

Acting Deputy Commissioner.



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OCT 15 1998

Knights of Columbus Supreme Council  
One Columbus Plaza  
New Haven, CT 06510-3325

Dear Sir or Madam:

This letter is in response to your request for a letter from the Internal Revenue Service confirming your exempt status and the exempt status of your subordinate units.

Our records indicate your Employee Identification Number is \_\_\_\_\_ and that a group ruling issued in October 1940, recognized your organization and subordinate councils as being exempt from federal income tax under what is now section 501(c)(8) of the Internal Revenue Code (IRC). Your Group Exemption Number is 0188. The group ruling is still in effect.

Sincerely,

A handwritten signature in black ink, appearing to read "Harold N. Toppall".

Harold N. Toppall  
Chief, Projects Branch 2  
Exempt Organizations Division

**BACKGROUND INFORMATION**  
**RE: SUBORDINATE COUNCILS, STATE COUNCILS,**  
**ASSEMBLIES AND RELATED HOME CORPORATIONS**

**TAX STATUS OF THE KNIGHTS OF COLUMBUS**

The Knights of Columbus is a fraternal benefit society under Internal Revenue Code Section 501(c)(8). The group exemption of the Knights of Columbus, dating from 1940, extends to subordinate councils of the Knights of Columbus, state councils and assemblies provided the Employer Identification Number (EIN) of such subordinate council is properly listed with the Supreme Advocate and thereafter, through the Supreme Advocate, listed with the IRS for inclusion in the group exemption listing.

**GROUP EXEMPTION**

The group exemption of the Knights of Columbus as a 501(c)(8) Fraternal Benefit Society is an exemption from most forms of federal income tax but not necessarily all. The group exemption does not extend to state or local sales taxes or property taxes unless specific state-granted statutory exemptions exist. The group exemption extends only to subordinate units of the Knights of Columbus: state councils, local councils and assemblies. It does not extend to related entities such as home corporations or home associations. Home corporations must qualify for federal tax exempt status on their own merits, as either 501(c)(2) title holding organizations or 501(c)(7) social clubs, depending on the manner in which they operate and their sources of income. Local tax advisors, accountants or attorneys can assist with this matter. Councils and assemblies should have property casualty liability insurance coverage. No such coverage exists or extends from the Supreme Council to councils and assemblies.

**SALES TAXES**

The federal income tax exempt status of the Knights of Columbus is not an exemption from state or local sales tax. For example, The Supreme Council, located in Connecticut, pays sales tax to the State of Connecticut on purchases. States generally grant sales tax exemptions only to IRS recognized 501(c)(3) charitable tax exempt organizations. Therefore your council or assembly is subject to sales tax on purchases, unless a specific state granted statutory exemption from sales taxes for Fraternal Benefit Societies exists in your state. A local tax advisor, accountant or attorney, or state revenue department can advise you.

**HOME CORPORATION STATUS**

Subordinate Councils of the Knights of Columbus are unincorporated associations which exist under charters issued by the Supreme Council. Under state law, they lack independent continuity of existence and are not eligible to be incorporated or to hold title to real estate. It is for that reason that home corporations are created as non-stock, non-profit corporations under state statutes. These corporations may qualify as either 501(c)(2) title holding organizations or 501(c)(7) social clubs, depending on how they operate and their sources of income. 501(c)(2) title holding organizations are created as non-stock, non-profit corporations under state law solely to hold title to real estate for another category of non-stock, non-profit, tax exempt organization, which is itself not eligible to hold title. Such organizations may have income only from the rental of the real estate in question such as rental earned from the council for its use or rental to other groups in the community. If other sources of income exist such as a bar, restaurant, or licensed gaming, then the home corporation must operate as a 501(c)(7) social club, the same category as a golf club or country club. If a liquor license is required it must be in the name of the home corporation, not in the name of the council. Home corporations should have property casualty liability coverage.



501(c)(7) social clubs may be subject to income tax on unrelated business taxable income if their receipts include more than 15% from non-members and may be required to file IRS Form 990T and pay tax on the unrelated business taxable income from non-members. Both 501(c)(2) and 501(c)(7) organizations would not be exempt from property tax or sales tax unless specific state granted statutory exemptions were to exist and they usually do not.

The membership in the home corporation may include only members in good standing of the council for whose benefit the corporation is formed. When a person's council membership is terminated, his membership in the corporation must automatically terminate. Model Articles of Incorporation and by-laws for home corporations are available from the Supreme Advocate's Office. They should be reviewed by an attorney licensed in your state to ensure that your by-laws meet all specific state statutory requirements.

It is important that councils with home corporations operate the two as entirely separate legal entities, each with its own EIN, its own records, and bank accounts, and if necessary, each organization might have to file its own Annual Information Return Form 990 or Form 990EZ with the IRS. The officers of each organization are responsible for compliance with applicable federal state and local laws and for making the required filings, if any.

Raising funds to build a home corporation building related to a Knights of Columbus Council is not recognized as a charitable activity by the IRS. Contributions for the purpose of acquiring, erecting, and/or maintaining a building used by a fraternal organization in its fraternal and other activities do not constitute charitable contributions and are not deductible. Revenue Ruling 56-329

### PASS THROUGH CHARITABLE FUNDRAISING

The status of the Knights of Columbus as a 501(c)(8) Fraternal Benefit Society also means that contributions to the council for fraternal purposes are not deductible by the donor. It is for this reason that dues notices include disclaimers regarding deductibility. There is an exception, however, to this rule. Contributions to a council by an individual might be deductible as a charitable contribution if Internal Revenue Code Section 170(c)(4) is complied with and those funds are used exclusively for charitable purposes.

The law allows deductibility by an individual of a contribution made to a fraternal benefit society if that contribution is to be used *exclusively* for charitable purposes. If this occurs, funds so solicited and collected may not be commingled in any manner and must be totally segregated from other council funds. Those funds cannot be used for social or fraternal purposes but may only be used exclusively for charitable purposes. This provision is the only provision under which any funds transferred to a Knights of Columbus subordinate council or assembly could be treated as deductible by the donor. Donations under IRC Sec.170(c)(4) must be reported by filing Form 990 Schedule B. Such donations of \$250.00 or more must be acknowledged as required by IRS publication 1771.

Also, this limited exception is only allowed to individual taxpayers; it can not be utilized by businesses or corporations. Therefore, it would not be applicable in any instance concerning corporate matching funds or discounts on corporate donation of goods or services. Bequests to a fraternal benefit society from an individual's estate might be eligible to be treated as charitable bequests if the will directs they are to be used exclusively for religious, charitable, scientific, literary or educational purposes, not fraternal or social, under IRC Sec.2055 (a)(3).

## LICENSED GAMING – IMPORTANT IRS INFORMATION

Many states allow non-profit tax-exempt organizations such as fraternal benefit societies like the Knights of Columbus to engage in charitable gaming to raise funds for charitable organizations and activities. Activity of this nature must be conducted in full compliance with all applicable local, state, and federal laws. The responsibility for complying with these laws rests with the officers of the subordinate council or assembly engaged in the activity.

The Internal Revenue Service has published a gaming publication for tax exempt organizations, IRS Publication 3079, to inform organizations of their compliance requirements concerning charitable gaming activity for income taxes, employment taxes and excise taxes. This activity may include instant tickets, lotteries, pull tabs, raffles and other gaming activities. The exempt organizations conducting gaming would have to include gaming gross receipts in their 990 filing requirement calculations.

Depending upon the type of gaming activity, the organization may be required to file Form 730, a monthly tax return and pay an excise tax on the gross receipts. The organization may also have to include the net receipts in filing requirements for Form 990T and possibly pay tax on unrelated taxable income resulting from the activity. There may also be other filing requirements concerning reporting income and withholding tax on winnings Form W-2G, employment tax filings for employees, and excise taxes or occupational taxes Form 11C concerning the gaming.

Certain bingo games may be exempt from the tax on unrelated business taxable income if they meet the requirements of IRC Sec. 513(f) and might be excluded from the wagering tax under IRC Sec. 4401. Income from the sale of "instant bingo" tickets or "bingo" pull-tabs do not qualify for the bingo exclusion.

It is recommended that subordinate councils or assemblies engaged in any form of charitable gaming carefully review these requirements by obtaining from the IRS: IRS Publication 3079, IRS Forms 730, 990, 990EZ, 990T, W-2G and 11C and instructions. These should be reviewed with an experienced accountant or attorney advising the council regarding tax compliance. The publications and forms and instructions may be obtained from the IRS by calling 1-800-829-3676, or the IRS website ([www.irs.gov](http://www.irs.gov)).

If the charitable gaming license is in the name of the council and under the EIN of the council, the gross receipts of the gaming must be included in the council's receipts for purposes of the Form 990 filing threshold. If the charitable gaming license is in the name of the home corporation and under the EIN of the home corporation, then the gross receipts of the gaming must be included in the home corporation's receipts for purposes of the Form 990 filing threshold.

## IRS ANNUAL INFORMATION RETURN FORM 990 OR 990EZ

Each state and subordinate council and assembly must file its own Form 990 or Form 990EZ if it reached the \$25,000 gross receipts threshold. There is no group or consolidated filing. Council related home corporations make their own Form 990 or Form 990EZ filings if the home corporation's gross receipts reach the \$25,000 threshold. The officers of each organization are responsible for compliance with applicable federal, state, and local laws and for making the required filings, if any.

**Worksheet for 2006 IRS Form 990 and Form 990-EZ Gross Receipts Test**

A tax exempt organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses. Gross receipts are the sum of: (See IRS Instruction for Form 990-EZ, Pages 46-55 enclosed)

- |   |       |
|---|-------|
| 1. Contributions, gifts, grants and similar amounts received:<br>(990-EZ Instructions, Page 47)             | _____ |
| 2. Program service revenue:<br>(Instructions Page 48)   | _____ |
| 3. Membership dues and assessments (Not including Supreme or<br>or State per capita) (Instructions Page 48) | _____ |
| 4. Investment income:<br>(Instructions Page 48)   | _____ |
| 5. Gains (or Losses) amount from sale of assets other than inventory:<br>(Instructions Page 49)             | _____ |
| 6. Special events and activities:<br>(Instructions Page 49)   | _____ |
| 7. Gross sales of inventory:<br>(Instructions Page 50)  | _____ |
| 8. Other revenue:<br>(Instructions Page 50)   | _____ |
| Total Gross Receipts:<br>(Add lines 1 through 8)  | _____ |

If Total Gross Receipts are \$25,000 or less, excluding pass-through receipts, you do not have to file Form 990 or Form 990-EZ, unless your assets at year-end were \$250,000 or more.

If Total Gross Receipts are more than \$25,000, you must file either Form 990 or Form 990-EZ and report all pass-through receipts.

If Total Gross Receipts are more than \$25,000 but less than \$100,000 and total assets at year-end were less than \$250,000, you may file Form 990-EZ. Read carefully the enclosed supplemental instructions for Form 990-EZ, as well as the IRS instructions for Form 990 and Form 990-EZ.

If Total Gross Receipts are \$100,000 or more or total assets at year end were \$250,000 or more, you must file Form 990. Read carefully the enclosed supplemental instructions for Form 990 and Form 990-EZ as well as the IRS instructions for Form 990 and Form 990-EZ.

Proceed to either Form 990 or Form 990-EZ as determined above.

**RE: KNIGHTS OF COLUMBUS SUPPLEMENTAL INSTRUCTIONS FOR 2006 ANNUAL  
FEDERAL INFORMATION RETURN IRS FORM 990-EZ**

Internal Revenue Service (IRS) Form 990-EZ and instructions may be obtained from IRS local offices or by calling the IRS forms-ordering number 1-800-TAX-FORM (1-800-829-3676). The IRS instructions plus the Knights of Columbus supplemental instructions for the 2006 990-EZ must be used together to complete the Form 990-EZ.

The IRS may send you a Form 990 or 990-EZ Form and instructions. The set from the IRS will include an address label showing last year's address. That label should be used in filing the form for the current year. If any information on the label is wrong, draw a line through that part and correct it following the Specific Instructions for Form 990-EZ, Item C, Page 46. If you did not file for 2005, you may not receive a packet from the IRS.

On Line "A," indicate the beginning and ending dates of your accounting year, if different from the calendar year.

On Line "B," check the box if the Council's mailing address has changed since the filing of the 2005 Form 990-EZ, or if the pre-addressed label you have received from the IRS was incorrect and you are correcting the information.

When completing the Name of Organization and address Box "C," use the pre-addressed mailing label you may have received from the IRS and follow the Specific Instructions for Form 990-EZ, Item C, Page 46 regarding name and address. Be certain to use your council's correct name and council number. Most council names should read, "Knights of Columbus Council No. (insert council number)." The Council or Assembly number may be a one, two, three, four or five digit number. While for computer purposes it may be preceded by a "0," do not do so here. Councils with adopted names should read "Knights of Columbus, (insert the adopted name), Council No. (insert council number)". **Do not** use the title "Supreme Council" anywhere in the name of your organization.

Your council's Employer Identification Number (EIN), a nine digit identification number issued by the IRS, should be inserted in Box "D" of the Form 990-EZ; if your council does not have its own EIN, you must file Form SS-4 with the IRS to request one. This form can be obtained from any local IRS office, or from the Supreme Advocate's office. Pending receipt of an EIN from the IRS, insert the words "applied for" in Box "D" of Form 990-EZ. Each council must have its own EIN in order to be listed under the Order's Group Exemption Number. **Do not** use the Supreme Council's EIN.

On Line "F," enter the group exemption number (GEN) 0188.

On Line "G," check the box reflecting the method of accounting.

Line "H" must be completed or the return will not be considered complete. If the council did not receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and did not receive any non-charitable contributions of \$5,000.00 or more, then check the box on Line "H" indicating the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF). See IRS instructions for Form 990-EZ, Page 46. If the council did receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and is otherwise required to file Form 990-EZ because it has gross receipts of \$25,000 or more excluding the pass-through receipts or had year-end assets of \$250,000 or more, then Schedule B (Form 990, 990-EZ, or 990-PF) must be completed, reporting contribution totals including pass-through receipts and individual contributions of \$1,000.00 or more. See IRS instructions for Form 990-EZ, Page 46 and the instructions for Schedule B. Contributions of \$250.00 or more must be provided a written acknowledgement substantiating the contribution (see IRS Publication 1771).

On Line "J," check the box for 501(c) and insert the figure "8" between the parentheses.

On Line "K," check the box if your gross receipts are normally not more than \$25,000. You need not file a completed return with the IRS if your receipts are not more than \$25,000, unless your assets at year-end are \$250,000 or more. See

IRS instructions for Form 990-EZ, Page 47, K and General Instructions A, B, Pages 2-3.

On Line "L," enter your 2006 gross receipts. If they are \$100,000 or more, you must file Form 990 instead of Form 990-EZ. If more than \$25,000 but less than \$100,000, you may file Form 990-EZ. Also, if your assets at year-end are \$250,000 or more, you must file Form 990 instead of Form 990-EZ, regardless of the amount of your 2006 gross receipts.

The remainder of the return should be completed as required by the IRS instructions for Form 990-EZ, Pages 47-55. Remember that "membership dues and assessments" (Part 1, Line 3) includes the total amount of all dues collected, minus the amount paid to the Supreme and State Councils for per-capita tax assessments and Catholic Advertising.

To avoid filing an incomplete return, you should enter "N/A" if an item does not apply or "0" (zero) if an amount is zero.

**Part II:** Follow IRS instructions for Form 990EZ Pages 51.

**Part III,** Lines 28, 29 and 30: Describe your three most successful program activities for the year. Describe the activity and the general benefit. Assistance in describing the benefit may be found in the general program activity booklets. Do not include any dollar amounts either in "Grants" or "Expenses."

**Part IV:** List your Grand Knight, Financial Secretary and Trustees. Those that are paid no compensation should be indicated by a "0" (zero) in Column C.

Part V:

**Questions 33 and 34:** The answer to each is "No."

**Question 35** must be answered to show whether your council had gross income in excess of \$1,000 from an unrelated trade or business. You must file a Form 990-T if you have gross income of \$1,000 or more derived from a business that is regularly carried on and is unrelated to your exempt purposes. Organizations with unrelated taxable business income are taxed at the corporate rate and must file the 990-T by the fifteenth day of the fifth month following the close of the taxable year. If the answer to 35a is "yes," then 35b must be answered as to whether a Form 990-T has been filed.

**Question 36:** Your answer generally will be "No." If your answer to Question 36 is "Yes," your schedule of disposed assets should be given in detail. See the IRS instructions for Form 990-EZ, Page 53.

**Question 37a:** The answer should be "0" (zero). **Question 37b:** The answer should be "No." Councils should not make political expenditures as described in IRS instructions for Form 990-EZ, Line 37, Page 53-54.

**Question 38a:** The answer should be "No;" if your answer to Question 38a is "Yes," attach the schedule specified in IRS instructions for Form 990-EZ, Line 38, Page 54.

The answer to **Questions 39a, 39b, 40a, 40b, 40c and 40d** is not applicable, "N/A". If you file a copy of this return with your state, complete **Question 41**. Complete **Question 42** with the name, address and telephone number of the Financial Secretary. **Do not** check the box on Line 43.

The Grand Knight, Deputy Grand Knight, Treasurer or Financial Secretary or equivalent officer of State Councils and Assemblies, must sign form 990-EZ. The completed form must be filed by mailing to the Internal Revenue Service Center, Ogden, UT 84201-0027 as shown on Page 7 of the Form 990 and Form 990-EZ instructions.

**RE: KNIGHTS OF COLUMBUS SUPPLEMENTAL INSTRUCTIONS FOR 2006 ANNUAL  
FEDERAL INFORMATION RETURN IRS FORM 990**

Internal Revenue Service (IRS) Form 990 and instructions may be obtained from IRS local offices or by calling the IRS forms ordering number 1-800-TAX-FORM (1-800-829-3676). The IRS instructions plus the Knights of Columbus supplemental instructions for the 2006 Form 990 must be used together to complete the Form 990.

The IRS may send you a 990 or 990-EZ Form and instructions. The set from the IRS will include an address label showing last year's address. That label should be used in filing the form for the current year. If any information on the label is wrong, draw a line through that part and correct it following the Specific Instructions for Form 990, Item C, Page 21. If you did not file for 2005, you may not receive a packet from the IRS.

On Line "A," indicate the beginning and ending dates of your accounting year, if different from the calendar year.

On Line "B," check the box if the Council's mailing address has changed since the filing of the 2005 Form 990, or if the pre-addressed mailing label you have received from the IRS was incorrect and you are correcting the information.

When completing the Name of Organization and address Box "C", use the pre-addressed mailing label you may have received from the IRS and follow the Specific Instructions for Form 990, Item C, Page 21 regarding name and address. Be certain to use your council's correct name and council number. Most council names should read, "Knights of Columbus Council No. (insert council number)." The Council or Assembly number may be a one, two, three, four or five digit number. While for computer purposes it may be preceded by a "0," do not do so here. Councils with adopted names should read, "Knights of Columbus, (insert the adopted name), Council No., (insert council number)." Do not use the title "Supreme Council" anywhere in the name of your organization.

Your council's Employer Identification Number (EIN), a nine digit identification number issued by the IRS, should be inserted in Box "D" of the Form 990; if your council does not have its own EIN, you must file Form SS-4 with the IRS to request one. This form can be obtained from any local IRS office, or from the Supreme Advocate's office. Pending receipt of an EIN from the IRS, insert the words "applied for" in Box "D" of Form 990. Each council must have its own EIN in order to be listed under the Order's Group Exemption Number. Do not use the Supreme Council's EIN.

On Line "F," check the box reflecting your method of accounting.

On Line "H," the answer to A is "no;" the answer to D is "yes." Do not answer (b) or (c). On Line "I," the GEN number is 0188.

On Line "J," check the box for 501(c) and insert the figure "8" between the parentheses.

On Line "K," check the box if your gross receipts are normally not more than \$25,000, and follow the IRS instructions for Form 990, B, 15, c. Page 21. You do not have to file a completed return with the IRS if your receipts are less than \$25,000, unless your assets at year-end are \$250,000 or more.

On Line "L" report gross receipts. See IRS instructions for Form 990, Pages 22.

Line "M" must be completed or the return will not be considered complete. If the council did not receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and did not receive any non-charitable contributions of \$5,000.00 or more, then check the box on Line "M" indicating the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF). See IRS instructions for Form 990, Page 22. If the council did receive any "pass-through charitable" contributions to be used exclusively for charitable (not fraternal or social) purposes and is otherwise required to file Form 990 because it has gross receipts of \$25,000 or more excluding the pass-through receipts or had year-end assets of \$250,000 or more, then Schedule B (Form 990, 990-EZ, or 990-PF) must be completed, reporting contribution totals and individual contributions of \$1,000.00 or more. See IRS instructions for Form 990, Page 22 and the instructions for Schedule B. Contributions of \$250.00 or more must be provided a written acknowledgement substantiating the contribution (see IRS Publication 1771).

The remainder of the return should be completed as required by the IRS instructions for Form 990. Again, if your gross receipts are normally not more than \$25,000, excluding pass-through receipts (see IRS instructions for Form 990, B, 15, c., Page 3-4) you are not required to complete and file the return with the IRS unless your gross assets at year-end are more than \$250,000. If

line 12 is more than \$25,000, you have a filing obligation. Remember that membership dues and assessment (Part 1, Line 3) include the total amount of all dues collected, minus the amount paid to the Supreme and State Councils for per-capita tax assessments and Catholic Advertising.

To avoid filing an incomplete return, you should enter "N/A" if an item does not apply or "0" (zero) if an amount is zero.

**Part II:** Do not complete columns (B), (C) and (D). Complete Column (A) if applicable, or enter "N/A" or "0" (zero) if the amount is zero.

**Part III,** Lines a, b, c and d: Describe your four most successful program activities for the year. Describe the activity and the general benefit. Assistance in describing the benefit may be found in the general program activity guide booklets. Do not include any dollar amounts either in "Grants" or "Expenses."

**Part IV,** Part IV-A, Part IV-B: Follow the IRS instructions for Form 990, Pages 34.

**Part V-A:** List your current Grand Knight, Financial Secretary and Trustees. Those that are paid no compensation should be indicated by a "0" (zero) in Column C. If any former Grand Knight, Financial Secretary or Trustee received any compensation or expense account, enter their names in Part V-B.

**Questions 76 and 77:** The answer to both is "No."

**Question 78** must be answered to show whether your council had gross income in excess of \$1,000 from an unrelated trade or business. You must file a Form 990-T if you have gross income of \$1,000 or more derived from a business that is regularly carried on and is unrelated to your exempt purpose. Organizations with unrelated taxable business income are taxed at the corporate rate and must file the 990-T by the fifteenth day of the fifth month following the close of the taxable year. If 78a is "yes," then 78b must be answered as to whether Form 990-T has been filed.

**Question 79:** Your answer generally will be "No." If your answer to Question 79 is "Yes," your schedule of disposed assets should be given in detail. See the IRS instructions for Form 990, Page 37.

**Question 80:** If your council has created a corporation or business association, you must answer "yes" and insert the corporation or association name on the proper line and check whether it is exempt or non-exempt.

**Question 81a :** The answer should be "0" (zero). **Question 81b:** the answer should be "No." Councils should not make political expenditures as described in IRS instructions for Form 990, Line 81, Page 37. **Question 82:** Follow IRS instruction Page 38.

**Question 83a** asks whether anyone requested to see either your annual return or exemption application. Answer "yes" only if you complied as described in the IRS instructions for Form 990, Section M, Pages 10. **Question 83b** asks whether you complied with the disclosure requests relating to quid pro quo contributions. See IRS instructions for Form 990, Section L, Pages 8.

**Question 84a** asks whether you solicited any contributions or gifts that were not tax deductible. If the answer to Question 84a is "yes," then under 84b, you are asked whether you complied with the IRS instructions for Form 990, Section L, Pages 7-8.

**Questions 85, 86, 87, and 89:** The answers for each of these questions are "N/A." Question 88 concerns subsidiary taxable corporations. If Question 88 is answered "yes," then Part IX of Form 990 must be completed.

**Question 90a:** This question should be completed if you file a copy of this return with your state.

**Question 91a:** List the name, address and telephone number of the Financial Secretary or the equivalent officer.

**Question 91b** should be answered "No" unless you had a foreign bank account.

**Question 92:** Do not check the box.

**Part VII:** Follow the IRS instructions for Form 990, Pages 43-44.

**Part VIII:** Follow the IRS instructions for Form 990, Page 44.

**Part X:** The answers to (a) and (b) should be "No." Councils should not have such transfers.

The Grand Knight, Deputy Grand Knight, Treasurer or Financial Secretary or equivalent officer of the State Councils and Assemblies, must sign Form 990. The completed form must be filed by mailing it to the Internal Revenue Service Center, Ogden, UT 84201-0027 as shown on Page 7 of the Form 990 and Form 990-EZ instructions.

## **Disclosure for Contributions**

Unless excepted from the requirement, all solicitations for fraternal funds by the Knights of Columbus, including councils, assemblies, chapters, state councils, etc. located in the United States, must bear a statement reading "Contributions, gifts, etc. paid to (insert name) are not deductible as charitable contributions."

Under current federal tax law, contributions made in the United States by an individual to a subordinate unit of the Knights of Columbus are not deductible as charitable contributions unless they are to be used exclusively for religious, charitable, scientific, literary, or educational purposes. If the funds solicited are to be used for such exempt purposes, as so called "pass through charitable fundraising," the solicitation does not have to bear the disclosure. For example, if a fundraising event is conducted, the proceeds of which are to be given to the Church, no disclosure is required on the tickets or the advertising for the event. If, however, part of the net proceeds is to be used for any non-qualified purpose, the tickets or any other advertising material must carry the disclaimer.

Contributions to a subordinate unit of the Knights of Columbus, by a corporation or business, are not deductible by the donor because only individuals can qualify for "pass through charitable fundraising" deductions.

The disclaimer of deductibility applies to any solicitation of contributions made in written or printed form, by television or radio, or by telephone. It is applicable to any fund-raising solicitation however labeled. It also must appear even if the solicitation is made only to existing members. Thus, the disclaimer must appear on membership dues statements.

The failure to use the disclaimer - without reasonable cause - carries a \$1,000 a day penalty for each day on which a failure to disclose occurs, with a maximum penalty of \$10,000.

To be able to show proper compliance with the law, you should maintain a file containing a copy of all solicitation materials used. This should include printed materials as well as instructions for telephone solicitations if those were used.

The law applies only to entities having gross receipts in excess of \$100,000 per year. However it is recommended that subordinates comply with the disclaimer requirement to be certain they are in compliance should the activities and receipts of the council reach the threshold level during that year.

Paul R. Devin  
Supreme Advocate



# Instructions for Form 990 and Form 990-EZ

# 2006



Department of the Treasury  
Internal Revenue Service

## Return of Organization Exempt From Income Tax and Short Form Return of Organization Exempt From Income Tax Under Section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

**Caution:** Form 990-EZ is for use by organizations other than sponsoring organizations and controlling organizations defined in section 512(b)(13), with gross receipts of less than \$100,000 and total assets of less than \$250,000 at the end of the year.

Section references are to the Internal Revenue Code unless otherwise noted.

### H. When, Where, and How To File

File Form 990, or Form 990-EZ, by the 15th day of the 5th month after the organization's accounting period ends. If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

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

If the return is not filed by the due date (including any extension granted), attach a statement giving the reasons for not filing on time. Send the return to the:

Internal Revenue Service Center  
Ogden, UT 84201-0027

**Private delivery services.** The organization can use certain private delivery services designated by the IRS to meet the timely mailing as timely filing/paying rule for tax returns and payments. These private delivery services include only the following.

- DHL Express (DHL): DHL "Same Day" Service, DHL Next Day 10:30 AM, DHL Next Day 12:00 PM, DHL Next Day 3:00 PM, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

### Electronic Filing

The organization can file Form 990, or Form 990-EZ, and related forms, schedules, and attachments electronically. However, if an organization files at least 250 returns during the calendar year and has total assets of \$10 million or more at the end of the tax year, it must file Form 990 electronically.

To determine if the organization meets the \$10 million asset test, use the amount that will be entered on line 59 (total assets), column (B).

If an organization is required to file a return electronically but does not, the organization is considered to have not filed its return. See Temporary Regulations section 301.6033-4T for more information.

For additional information on the electronic filing requirement, visit [www.irs.gov/efile](http://www.irs.gov/efile).



**TIP** The IRS may waive the requirements to file electronically in cases of undue hardship. For information on filing a waiver, see Notice 2005-88, 2005-48 I.R.B. 1060.

### I. Extension of Time To File

Use Form 8868 to request an automatic 3-month extension of time to file. Use Form 8868 also to apply for an additional (not automatic) 3-month extension if the original 3 months was not enough time. To obtain this additional extension of time to file, the organization must show reasonable cause for the additional time requested. See the Instructions for Form 8868.

### J. Amended Return / Final Return

To change the organization's return for any year, file a new return including any required attachments. Use the revision of Form 990, or Form 990-EZ, applicable to the year being amended. The amended return must provide all the information called for by the form and instructions, not just the new or corrected information. Check the *Amended return* box in the heading of the return.

The organization may file an amended return at any time to change or add to the information reported on a previously filed return for the same period. It must make the amended return available for public inspection for 3 years from the date of filing or 3 years from the date the original return was due, whichever is later.

The organization must also send a copy of the information or amended return to any state with which it filed a copy of Form 990, or Form 990-EZ, originally to meet that state's filing requirement.

Use Form 4506 to obtain a copy of a previously filed return. For information on getting blank tax forms, see *General Instruction D*.

If the return is a final return, see the *Specific Instructions* for Form 990 for line 79, Part VI. For Form 990-EZ, see the *Specific Instructions* for line 36, Part V.

### K. Failure to File Penalties

#### Against the Organization

Under section 6652(c)(1)(A), a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the organization for the year, may be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. Organizations with annual gross receipts exceeding \$1 million are subject to a penalty of

\$100 for each day the failure continues (with a maximum penalty with respect to any one return of \$50,000). The penalty begins on the due date for filing the Form 990 or Form 990-EZ.

The penalty may also be charged if the organization files an incomplete return. To avoid having to supply missing information later, be sure to complete all applicable line items; answer "Yes," "No," or "N/A" (not applicable) to each question on the return; make an entry (including a zero when appropriate) on all total lines; and enter "None" or "N/A" if an entire part does not apply.

Also, this penalty may be imposed if the organization's return contains incorrect information. For example, an organization that reports contributions net of related fundraising expenses may be subject to this penalty.

Use of a paid preparer does not relieve the organization of its responsibility to file a complete and accurate return.

#### Against Responsible Person(s)

If the organization does not file a complete return or does not furnish correct information, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of \$10 a day. The maximum penalty on all persons for failures with respect to any one return shall not exceed \$5,000 (section 6652(c)(1)(B)(ii)).

Any person who does not comply with the public inspection requirements, as discussed in *General Instruction M*, will be assessed a penalty of \$20 for each day that inspection was not permitted, up to a maximum of \$10,000 for each return. The penalties for failure to comply with the public inspection requirements for applications is the same as those for annual returns, except that the \$10,000 limitation does not apply (sections 6652(c)(1)(C) and (D)). Any person who willfully fails to comply with the public inspection requirements for annual returns or exemption applications will be subject to an additional penalty of \$5,000 (section 6685).

There are also penalties (fines and imprisonment) for willfully not filing returns and for filing fraudulent returns and statements with the IRS (sections 7203, 7206, and 7207). States may impose additional penalties for failure to meet their separate filing requirements. See also the discussion of the *Trust Fund Recovery Penalty*, under *General Instruction D*.

## Specific Instructions for Form 990-EZ

See also the *General Instructions* that apply to both Form 990 and Form 990-EZ.

Contents	Page
Completing the Heading of Form 990-EZ . . .	46
Part I—Revenue, Expenses, and Changes in Net Assets or Fund Balances . . . . .	47
Part II—Balance Sheets . . . . .	51
Part III—Statement of Program Service Accomplishments . . . . .	51
Part IV—List of Officers, Directors, Trustees, and Key Employees . . . . .	52
Part V—Other Information . . . . .	52

### Completing the Heading of Form 990-EZ

The instructions that follow are keyed to items in the heading for Form 990-EZ.

#### Item A—Accounting Period

File the 2006 return for calendar year 2006 and fiscal years that begin in 2006 and end in 2007. For a fiscal year return, fill in the tax year space at the top of page 1.

#### Item B—Checkboxes

**Address change, name change, and initial return.** Check the appropriate box if the organization changed its address since it filed its previous return, or if this is the first time the organization is filing either a Form 990 or a Form 990-EZ.

If the tax-exempt organization has changed its name, attach the following documents:

IF the organization is . . .	THEN attach . . .
A corporation	An amendment to the articles of incorporation with proof of filing with the state of incorporation.
A trust	An amendment to the trust agreement signed by the trustee.
An association	An amendment to the articles of association, constitution, bylaws, or other organizing document, along with signatures of at least two officers/members.

#### Final return and amended return.

Organizations should file final returns when they cease to be section 501(a) organizations or section 527 organizations; for example, when they cease operations and dissolve. See the instructions for line 36 that discuss liquidations, dissolutions, terminations, or substantial contractions.

If the return is an amended return, check the box. There are amended return requirements when filing with a state. See *General Instructions E* and *J*.

**Application pending.** If the organization's application for exemption is pending, check this box and complete the return.

#### Item C—Name and Address

If we mailed the organization a Form 990 Package with a preaddressed mailing label, attach the label in the name and address space on the organization's return. Using the label helps us avoid errors in processing the return. If any information on the label is wrong, draw a line through that part and correct it.

If the organization operates under a name different from its legal name, give the legal name of the organization but identify its alternate name, after the legal name, by writing "aka" (also known as) and the alternate name of the organization. However, if the organization has changed its name, follow the instructions for *Name change in Item B—Checkboxes*.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

If the organization receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line C/O followed by the third party's name and street address or P.O. box.

For foreign addresses, enter information in the following order: City, province or state, and the name of the country. Follow the foreign country's practice in placing the postal code in the address. Please do not abbreviate the country name.

If a change of address occurs after the return is filed, use Form 8822 to notify the IRS of the new address.

#### Item D—Employer Identification Number

The organization should have only one federal employer identification number (EIN). If the organization has more than one EIN and has not been advised which to use, notify the Internal Revenue Service Center, Ogden, UT 84201-0027. State what numbers the organization has, the name and address to which each number was assigned, and the address of its principal office. The IRS will advise the organization which number to use.



*A section 501(c)(9) voluntary employees' beneficiary association must use its own EIN and not the EIN of its sponsor.*

#### Item E—Telephone Number

Enter a telephone number of the organization that members of the public and government regulators may use during normal business hours to obtain information about the organization's finances and activities. If the organization does not have a telephone number, enter the telephone number of an organization official who can provide such information.

#### Item F—Group Exemption Number

The group exemption number (GEN) is a number assigned by the IRS to the central/parent organization of a group that has a group ruling.

If the organization is covered by a group exemption letter, enter the four-digit group exemption number. Contact the central/

parent organization if the organization is unsure of the GEN assigned.

#### Item G—Accounting Method

Indicate the method of accounting used in preparing this return. See *General Instruction G*.

#### Item H—Schedule B (Form 990, 990-EZ, or 990-PF)

Whether or not the organization enters any amount on line 1 of Form 990-EZ, the organization must either check the box in item H or attach Schedule B (Form 990, 990-EZ, or 990-PF). Failure to either check the box in item H or file Schedule B (Form 990, 990-EZ, or 990-PF) will result in a determination that the return is incomplete. See the Instructions for Schedule B (Form 990, 990-EZ, or 990-PF), for more information.



*Contributor includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations.*

### Guidelines for Meeting the Requirements of Schedule B (Form 990, 990-EZ, or 990-PF)

#### Section 501(c)(3) Org. Meeting the 1/3 Support Test of 170(b)(1)(A)

**If . . . . .** A section 501(c)(3) organization that met the 1/3 support test of the regulations under 509(a)(1)/170(b)(1)(A) did not receive a contribution of the greater of \$5,000 or 2% of the amount on line 1 of Form 990-EZ, from any one contributor,\*

**Then . . . . .** The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise** Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

#### Section 501(c)(7), (8), or (10) Organizations

**If . . . . .** A section 501(c)(7), (8), or (10) organization did not receive *any* contribution or bequest for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals (and did not receive any noncharitable contributions of \$5,000 or more as described below under **general rule**),

**Then . . . . .** The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise** Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

#### All Other Form 990 or Form 990-EZ Organizations (General rule)

**If . . . . .** The organization did not show as part of line 1 of the Form 990-EZ, a contribution of \$5,000 or more from any one contributor,\*

**Then . . . . .** The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise** Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

\* Total a contributor's gifts of \$1,000 or more to determine if a contributor gave \$5,000 or more. Do not include smaller gifts.

### Item I—Website

Show the organization's website address if a website is available. Otherwise, write "N/A" (not applicable). Consider adding the organization's email address to its website.

### Item J—Organization Type

If the organization is exempt under section 501(c), check the applicable box and insert, within the parentheses, the number that identifies the type of section 501(c) organization the filer is. See the chart in *General Instruction C*. The term section 501(c)(3) includes organizations exempt under sections 501(e), (f), (k), and (n). Check the box if the organization is a section 527 political organization. See *General Instruction U*.

If the organization is a section 4947(a)(1) nonexempt charitable trust, check the applicable box. Note also the discussion regarding Schedule A (Form 990 or 990-EZ) and Form 1041 in *General Instruction D* and the instructions for line 43.

### Item K—Gross Receipts of \$25,000 or Less

Check this box if the organization is not a section 509(a)(3) supporting organization and its gross receipts are normally not more than \$25,000 but the organization chooses to file a return. If the organization chooses to file a return, be sure to file a complete return. See *General Instruction B* for a discussion on gross receipts and *General Instruction X* for a discussion on a complete return.



To figure if a section 501(c)(15) organization qualifies for tax-exemption for the year, see the definition of gross receipts for section 501(c)(15) purposes under Section 501(c)(15) Organizations in *General Instruction A*. Do not use the section 501(c)(15) definition of gross receipts to figure if the organization's gross receipts are normally \$25,000 or less.

### Item L—Figuring Gross Receipts

Only those organizations with gross receipts of less than \$100,000 and total assets of less than \$250,000 at the end of the year can use the Form 990-EZ. If the organization does not meet these requirements, it must file Form 990. The organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses. See the gross receipts discussion in *General Instruction B*.



To figure if a section 501(c)(15) organization qualifies for tax-exemption for the year, see the definition of gross receipts for section 501(c)(15) purposes under Section 501(c)(15) Organizations in *General Instruction A*. Do not use the section 501(c)(15) definition of gross receipts to figure the amount to enter here.

## Part I—Revenue, Expenses, and Changes in Net Assets or Fund Balances

All organizations filing Form 990-EZ with the IRS or any state must complete Part I. Some states that accept Form 990-EZ in place of their own forms may require additional information. See *General Instruction E*.

### Line 1. Contributions, Gifts, Grants, and Similar Amounts Received

#### A. What is included on line 1

- Report amounts received as voluntary contributions; (for example, payments, or the part of any payment, for which the payer (donor) does not receive full retail value (fair market value) from the recipient (donee) organization).
- Enter the gross amounts of contributions, gifts, grants, and bequests that the organization received from individuals, trusts, corporations, estates, affiliates, foundations, public charities, and other exempt organizations, or raised by an outside professional fundraiser.
- Report the value of noncash contributions at the time of the donation. For example, report the gross value of a donated car as of the time the car was received as a donation.
- Report all related expenses on lines 12 through 16. The organization must show on line 13 professional fundraising fees relating to the gross amounts of contributions collected in the charity's name by fundraisers.

Reporting for line 1, in accordance with SFAS 116, Accounting for Contributions Received and Contributions Made, is acceptable for Form 990-EZ, or Form 990, purposes, but not required by the IRS. However, see *General Instruction E*.

An organization that receives a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 1. Accruals of present value increments to the unpaid grant should also be reported on line 1 in future years.

**1. Contributions can arise from special events when an excess payment is received for items offered.** Fundraising activities relate to soliciting and receiving contributions. However, special fundraising activities such as dinners, door-to-door sales of merchandise, carnivals, and bingo games can produce both contributions and revenue. Report as a contribution, both on line 1 and on line 6a (within the parentheses), any amount received through such a special event that is greater than the fair market value (retail value) of the merchandise or services furnished by the organization to the contributor.

This situation usually occurs when organizations seek support from the public through solicitation programs that are in part special events or activities and are in part solicitations for contributions. The primary purpose of such solicitations is to receive contributions and not to sell the merchandise at its retail value even though this might produce a profit.

**Example.** An organization announces that anyone who contributes at least \$40 to the organization can choose to receive a book worth \$16 retail value. A person who gives \$40, and who chooses the book, is really purchasing the book for \$16 and also making a contribution of \$24. The contribution of \$24, which is the difference between the buyer's payment and the \$16 retail value of the book, would be reported on line 1 and again on line 6a (within the parentheses). The revenue received (\$16 retail value of the book) would be reported in the right-hand column on line 6a. Any expenses directly relating to the sale of the book would be reported on line 6b. Any fundraising expenses relating to the contribution of \$24 would be reported on lines 12 through 16.

If a contributor gives more than \$40, that person would be making a larger contribution, the difference between the book's retail value of \$16 and the amount actually given. See also the instructions for line 6 and Pub. 526.



At the time of any solicitation or payment, organizations that are eligible to receive tax-deductible contributions should advise patrons of the amount deductible for federal tax purposes. See *General Instruction L*.

**2. Contributions can arise from special events when items of only nominal value are given or offered.** If an organization offers goods or services of only nominal value through a special event, or distributes free, unordered, low-cost items to patrons, report the entire amount received for such benefits as a contribution on line 1. Report all related expenses on lines 12 through 16.

See *General Instruction L* for a definition of benefits that have a nominal or insubstantial value.

**3. Section 501(c)(3) organizations.** These organizations must compute the amounts of revenue and contributions received from special events according to the above instructions when preparing their *Support Schedule* in Part IV-A of Schedule A (Form 990 or 990-EZ).

**4. Grants equivalent to contributions.** Grants made to encourage an organization receiving the grant to carry on programs or activities that further the grant recipient's exempt purposes are grants that are equivalent to contributions. Report them on line 1. The grantor may specify which of the recipient's activities the grant may be used for, such as an adoption program or a disaster relief project.

A grant is still equivalent to a contribution if the grant recipient performs a service, or produces a work product, that benefits the grantor incidentally (but see line 1, instruction B1, below).

**5. Contributions received through other fundraising organizations.** Contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies (such as United Way) are included on line 1.

**6. Contributions received from associated organizations.** Include on line 1 amounts contributed by other organizations closely associated with the reporting organization. This includes contributions received from a parent

organization, subordinate, or another organization having the same parent.

**7. Contributions from a commercial co-venture.** Include amounts contributed by a commercial co-venture on line 1. These contributions are amounts received by the organization for allowing an outside organization (donor) or individual to use the recipient organization's name in a sales promotion campaign.

**8. Contributions or grants from governmental units.** A grant, or other payment from a governmental unit, is treated as a grant equivalent to a contribution if its primary purpose is to enable the recipient to provide a service to, or maintain a facility for, the direct benefit of the public rather than to serve the direct and immediate needs of the grantor (even if the public pays part of the expense of providing the service or facility). (See also line 1, instruction B1, below.)

**9. Contributions in the form of membership dues.** Include on line 1 membership dues and assessments to the extent they are contributions and not payments for benefits received. (See line 3, instruction C1.)

## B. What is not included on line 1

**1. Grants that are payments for services are not contributions.** A grant is a payment for services, and not a contribution, when the terms of the grant provide the grantor with a specific service, facility, or product, rather than providing a benefit to the general public or that part of the public served by the grant recipient. The recipient organization would report such a grant as income on line 2 (program service revenue).

**2. Donations of services.** Do not include the value of services donated to the organization, or items such as the free use of materials, equipment, or facilities, as contributions on line 1. However, for the optional reporting of such amounts, see the instruction for donated services in Part III.

Any unreimbursed expenses of officers, employees, or volunteers do not belong on the Form 990 or Form 990-EZ. See the instructions for charitable contributions and employee business expenses in Pub. 526 and 463, respectively.

**3. Section 501(c)(9), (17), and (18) organizations.** These organizations provide participants with life, sickness, accident, welfare and unemployment insurance, pension(s), or similar benefits, or a combination of these benefits. When such an organization receives payments from participants, or their employers, to provide these benefits, report the payments on line 2 as program service revenue, rather than on line 1 as contributions.

## C. How to value noncash contributions

See *General Instruction L* and Schedule B (Form 990, 990-EZ, or 990-PF).

## D. Schedule of contributors

Attach Schedule B (Form 990, 990-EZ, or 990-PF). See *General Instruction L* and the *Specific Instructions for Completing the Heading of Form 990-EZ*, Item H.

## Line 2—Program Service Revenue Including Medicare, Medicaid Payments, and Government Fees and Contracts

Enter the total program service revenue (exempt function income). Program services are primarily those that form the basis of an organization's exemption from tax.

**1. Examples.** A clinic would include on line 2 all of its charges for medical services (whether to be paid directly by the patients or through Medicare, Medicaid, or other third-party reimbursement), laboratory fees, and related charges for services.

Program service revenue also includes tuition received by a school; revenue from admissions to a concert or other performing arts event or to a museum; royalties received as author of an educational publication distributed by a commercial publisher; payments received by a section 501(c)(9) organization from participants or employers of participants for health and welfare benefits coverage; and registration fees received in connection with a meeting or convention.

**2. Program-related investment income.** Program service revenue also includes income from program-related investments. These investments are made primarily to accomplish an exempt purpose of the investing organization rather than to produce income. Examples are scholarship loans and low-interest loans to charitable organizations, indigents, or victims of a disaster. Rental income received from an exempt function is another example of program-related investment income. See also the instructions for line 4.

**3. Unrelated trade or business activities.** Unrelated trade or business activities (not including any special events or activities) that generate fees for services may also be program service activities. A social club, for example, should report as program service revenue the fees it charges both members and nonmembers for the use of its tennis courts and golf course.

**4. Government fees and contracts.** Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product that benefited that government agency directly rather than benefiting the public as a whole. See line 1, instruction A8, for reporting guidelines when payments are received from a government agency for providing a service, facility, or product for the primary benefit of the general public.

## Line 3—Membership Dues and Assessments

Enter members' and affiliates' dues and assessments that are not contributions. See also *General Instruction L*.

### A. What is included on line 3

**1. Dues and assessments received that compare reasonably with the benefits of membership.** When the organization receives dues and assessments that compare reasonably with membership benefits, report such dues and assessments on line 3.

**2. Organizations that generally match dues and benefits.** Organizations described in section 501(c)(5), (6), or (7)

generally provide benefits with a reasonable relationship to dues, although benefits to members may be indirect.

## B. Examples of membership benefits

These include subscriptions to publications; newsletters (other than one about the organization's activities only); free or reduced-rate admissions to events the organization sponsors; use of its facilities; and discounts on articles or services that both members and nonmembers can buy. In figuring the value of membership benefits, disregard such intangible benefits as the right to attend meetings, vote, or hold office in the organization, and the distinction of being a member of the organization.

## C. What is not included on line 3

**1. Dues or assessments received that exceed the value of available membership benefits.** Whether or not membership benefits are used, dues received by an organization, to the extent they exceed the monetary value of the membership benefits available to the dues payer, are a contribution that should be reported on line 1.

**2. Dues received primarily for the organization's support.** If a member pays dues primarily to support the organization's activities, and not to obtain benefits of more than nominal monetary value, those dues are a contribution to the organization includable on line 1.

## Line 4—Investment Income

### A. What is included on line 4

**1. Interest on savings and temporary cash investments.** Include the amount of interest received from interest-bearing checking accounts, savings, and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other governmental obligations that mature in less than 1 year. So-called dividends or earnings received from mutual savings banks, money market funds, etc., are actually interest and should be included on this line.

**2. Dividends and interest from securities.** Include the amount of dividend and interest income from equity and debt securities (stocks and bonds) on this line. Include amounts received from payments on securities loans, as defined in section 512(a)(5).

**3. Gross rents.** Include gross rental income received during the year from investment property.

**4. Other investment income.** Include, for example, royalty income from mineral interests owned by the organization.

### B. What is not included on line 4

**1. Capital gains dividends and unrealized gains and losses.** Do not include on this line any capital gains dividends. They are reported on line 5. Also do not include unrealized gains and losses on investments carried at market value. See the instructions for line 20.

**2. Exempt function revenue (program service).** Do not include on line 4 amounts that represent income from an exempt

function (program service). Report these amounts on line 2 as program service revenue. Report expenses related to this income on lines 12 through 16.

An organization whose exempt purpose is to provide low-rental housing to persons with low income receives exempt function income from such rentals. An organization receives exempt function income if it rents or sublets rental space to a tenant whose activities are related to the reporting organization's exempt purpose. Exempt function income also arises when an organization rents to an unaffiliated exempt organization at less than fair rental value for the purpose of helping that unaffiliated organization carry out its exempt purpose. Report rental income received in these instances on line 2 and not on line 4.

Only for purposes of completing this return, treat income from renting property to affiliated exempt organizations as exempt function income and include such income on line 2 as program service revenue.

### Lines 5a through 5c—Gains (or Losses) From Sale of Assets Other Than Inventory

#### A. What is included on line 5

Report on line 5a all sales of securities and sales of all other types of investments (such as real estate, royalty interests, or partnership interests) as well as sales of all other noninventory assets (such as program-related investments and fixed assets used by the organization in its related and unrelated activities).

Total the cost or other basis (less depreciation) and selling expenses and enter the result on line 5b. On line 5c, enter the net gain or loss. Report capital gains dividends, the organization's share of capital gains and losses from a partnership, and capital gains distributions from trusts on lines 5a and 5c. Indicate the source on the schedule described below.

For this return, the organization may use the more convenient way to figure the organization's gain or loss from sales of securities by comparing the sales price with the average-cost basis of the particular security sold. However, generally the average-cost basis is not used to figure the gain or loss from sales of securities reportable on Form 990-T.

#### B. What is not included on line 5

Do not include on line 5 any unrealized gains or losses on securities that are carried in the books of account at market value. See the instructions for line 20.

#### C. Attached schedule

**1. Nonpublicly traded securities and noninventory items.** Attach a schedule to show the sale or exchange of nonpublicly traded securities and the sale or exchange of other assets that are not inventory items. The schedule should show security transactions separately from the sale of other assets. Show for these assets:

- Date acquired and how acquired,
- Date sold and to whom sold,
- Gross sales price,
- Cost, other basis, or if donated, value at time acquired (state which),

- Expense of sale and cost of improvements made after acquisition, and
- Depreciation since acquisition, if depreciable property.

**2. Publicly traded securities.** For sales of publicly traded securities through a broker, the organization may total the gross sales price, the cost or other basis, and the expenses of sale, and report lump-sum figures in place of providing the detailed reporting required in the above paragraph.

Publicly traded securities include common and preferred stocks, bonds (including governmental obligations), and mutual fund shares that are listed and regularly traded in an over-the-counter market or on an established exchange and for which market quotations are published or otherwise readily available.

### Lines 6a through 6c—Special Events and Activities

On the appropriate line, enter the gross revenue, expenses, and net income (or loss) from all special events and activities, such as dinners, dances, carnivals, raffles, bingo games, other gaming activities, and door-to-door sales of merchandise.

These activities only incidentally accomplish an exempt purpose. Their sole or primary purpose is to raise funds that are other than contributions to finance the organization's exempt activities.

This is done by offering goods or services that have more than a nominal value (compared to the price charged) for a payment that is more than the direct cost of those goods or services. See line 1 instructions A1 and A2 for a discussion on contributions reportable on line 1 and revenue reportable on line 6. See also *General Instruction L*.

Calling any required payment a donation or contribution on tickets, advertising, or solicitation materials does not change how these payments should be reported on Form 990-EZ.

The gross revenue from gaming activities and other special events must be reported in the right-hand column on line 6a without reduction for cash or noncash prizes, cost of goods sold, compensation, fees, or other expenses. Be sure to check the box for gaming if the organization conducted directly, or through the promoter, any amount of gaming during the year.

Gaming includes (but is not limited to): bingo, pull tabs, instant bingo raffles, scratch-offs, charitable gaming tickets, break-opens, hard cards, banded tickets, jar tickets, pickle cards, Lucky Seven cards, Nevada Club tickets, casino nights, Las Vegas nights and coin-operated gambling devices. Coin-operated gambling devices include slot machines, electronic video slot or line games, video poker, video blackjack, video keno, video bingo, video pull tab games, etc.

#### A. What is included on line 6

**1. Gross revenue/contributions.** When an organization receives payments for goods or services offered through a special event, enter:

1. As gross revenue, on line 6a (in the right-hand column), the retail value of the goods or services,

2. As a contribution, on both line 1 and line 6a (within the parentheses), any amount received that exceeds the retail value of the goods or services given.

**Example.** At a special event, an organization received \$100 in gross receipts for goods valued at \$40. The organization entered gross revenue of \$40 on line 6a and entered a contribution of \$60 on both line 1 and within the parentheses on line 6a. The contribution was the difference between the gross revenue of \$40 and the gross receipts of \$100.

**2. Raffles or lotteries.** Report as revenue, on line 6a, any amount received from raffles or lotteries that require payment of a specified minimum amount for each entry, unless the prizes awarded have only nominal value. See line 6, instruction B1 and B2, below.

**3. Direct expenses.** Report on line 6b only the direct expenses attributable to the goods or services the buyer receives from a special event. If the organization includes an expense on line 6b, do not report it again on line 7b. Report cost of goods related to the sale of inventory on line 7b. Fundraising expenses attributable to contributions reported on line 6a (within the parentheses), and also on line 1, are reportable on lines 12 through 16.

#### B. What is not included on line 6

**1. Sales or gifts of goods or services of only nominal value.** If the goods or services offered at the special event have only nominal value, include all of the receipts as contributions on line 1 and all of the related expenses on lines 12 through 16. See *General Instruction L* for a description of nominal or insubstantial benefits.

**2. Sweepstakes, raffles, and lotteries.** Report as a contribution, on line 1, the proceeds of solicitation campaigns in which the names of contributors and other respondents are entered in a drawing for prizes.

When a minimum payment is required for each raffle or lottery entry and prizes of only nominal value are awarded, report any amount received as a contribution. Report the related expenses on lines 12 through 16.

**3. Activities that generate only contributions are not special events.** An activity that generates only contributions, such as a solicitation campaign by mail, is not a special event. Any amount received should be included on line 1 as a contribution. Related expenses are reportable on lines 12 through 16.

#### C. Attached schedule

Attach a schedule listing the three largest fundraising events, as measured by gross receipts. If gaming is conducted, treat different types of gaming separately to determine the three largest events. For example, treat bingo and pull tabs as separate fundraising events. Describe each of these events by listing the type of event and the number of occasions that the event occurred and show (for each event):

1. Gross receipts,
2. Contributions included in gross receipts (see line 6, instruction A1, above),
3. Gross revenue (gross receipts less contributions),

4. Direct expenses, and
5. Net income or (loss) (gross revenue less direct expenses).

For gaming, direct expenses include: cash and noncash prizes, compensation to bingo callers and workers, rental of gaming equipment, cost of bingo supplies such as pull tab deals, etc.

Furnish the same information, in total figures, for all other special events held that are not among the largest three. Indicate the type and number of the events not listed individually (for example, three dances and two raffles).

An example of this schedule of special events might appear in columnar form as follows:

Special Events (and the number of occasions that the event occurred):	(A) #	(B) #	(C) #	All Other	Total
Gross Receipts	\$xx	\$xx	\$xx	\$xx	\$xx
Less: Contributions	xx	xx	xx	xx	xx
Gross Revenue	xx	xx	xx	xx	xx
Less: Direct Expenses	xx	xx	xx	xx	xx
Net Income or (loss)	\$xx	\$xx	\$xx	\$xx	\$xx

If the organization uses this format, report the total for Contributions on line 1 of Form 990-EZ and on line 6a (within the parentheses). Report the totals for *Gross Revenue*, in the right-hand column, on line 6a; *Direct Expenses* on line 6b; and *Net Income or (loss)* on line 6c.

### Lines 7a through 7c—Gross Sales of Inventory

**1. Sales of inventory.** Include on line 7a the gross sales (less returns and allowances) of inventory items, whether the sales activity is an exempt function or an unrelated trade or business. Include all inventory sales except sales of goods at special events, which are reportable on line 6.

**2. Cost of goods sold.** On line 7b, report the cost of goods sold related to sales of such inventory. The usual items included in cost of goods sold are direct and indirect labor, materials and supplies consumed, freight-in, and a proportion of overhead expenses. Marketing and distribution expenses are not includible in cost of goods sold. Include those expenses on lines 12 through 16.

**3. Investments.** Do not include on line 7 sales of investments on which the organization expected to profit by appreciation and sale. Report sales of these investments on line 5.

### Line 8—Other Revenue

Enter the total income from all sources not covered by lines 1 through 7. Examples of types of income includible on line 8 are interest on notes receivable not held as investments or as program-related investments (defined in the line 2 instructions); interest on loans to officers, directors, trustees, key employees, and other employees; and royalties that are not investment income or program service revenue.

### Line 10—Grants and Similar Amounts Paid

Reporting for line 10 in accordance with SFAS 116, is acceptable for Form 990-EZ

purposes, but not required by IRS. However, see *General Instruction E*.

An organization that makes a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 10. Accruals of present value increments to the unpaid grant should also be reported on line 10 in future years.

### A. What is included on line 10

Enter the amount of actual grants and similar amounts paid to individuals and organizations selected by the filing organization. Include scholarship, fellowship, and research grants to individuals.

#### 1. Specific assistance to individuals.

Include on this line the amount of payments to, or for the benefit of, particular clients or patients, including assistance by others at the expense of the filing organization.

#### 2. Payments, voluntary awards, or grants to affiliates.

Include on line 10 certain types of payments to organizations affiliated with (closely related to) the reporting organization. These payments include predetermined quota support and dues payments by local organizations to their state or national organizations.



*If the organization uses Form 990-EZ for state reporting purposes, be sure to distinguish between payments to affiliates and awards and grants. See General Instruction E.*

### B. What is not included on line 10

**1. Administrative expenses.** Do not include on this line expenses made in selecting recipients or monitoring compliance with the terms of a grant or award. Enter those expenses on lines 12 through 16.

**2. Purchases of goods or services from affiliates.** Do not report the cost of goods or services purchased from affiliates on line 10. Report these as expenses on lines 12 through 16.

**3. Membership dues paid to another organization.** Report membership dues that the organization pays to another organization for general membership benefits, such as regular services, publications, and materials on line 16, as *Other expenses*.

### C. Attached schedule

Attach a schedule to explain the amounts reported on line 10. Show on this schedule:

- Each class of activity,
- The grantee's name and address,
- The amount given, and
- The relationship of the grantee (in the case of grants to individuals) if the relationship is by blood, marriage, adoption, or employment (including employees' children) to any person or corporation with an interest in the organization, such as a creator, donor, director, trustee, officer, etc.

Any grants reported on line 10 that were approved during the year, but not paid by the due date for filing Form 990-EZ (including extensions), must be identified and listed separately in the line 10 schedule.

Give the name and address of each affiliate that received any payment reported on line 10. Specify both the amount and purpose of these payments.

Classify activities on this schedule in more detail than by using such broad terms as charitable, educational, religious, or scientific. For example, identify payments to affiliates; payments for nursing services; fellowships; or payments for food, shelter, or medical services for indigents or disaster victims. For payments to indigent families, do not identify the individuals.

If an organization gives property other than cash and measures an award or grant by the property's fair market value, also show on this schedule:

- A description of the property,
- The book value of the property,
- How the organization determined the book value,
- How the organization determined the fair market value, and
- The date of the gift.

Any difference between a property's fair market value and book value should be recorded in the organization's books of account and on line 20.

Colleges, universities, and primary and secondary schools are not required to list the names of individuals who were provided scholarships or other financial assistance whether they are the recipients of Federal grant money or not. Instead, these organizations must (a) group each type of financial aid provided; (b) indicate the number of individuals who received the aid; and (c) specify the aggregate dollar amount.

### Line 11—Benefits Paid To or For Members

For an organization that gives benefits to members or dependents (such as organizations exempt under section 501(c)(8), (9), or (17)), enter the amounts paid for: (a) death, sickness, hospitalization, or disability benefits; (b) unemployment compensation benefits; and (c) other benefits. Do not include, on this line, the cost of employment-related benefits the organization gives its officers and employees. Report them on line 12.

### Line 12—Salaries, Other Compensation, and Employee Benefits

Enter the total salaries and wages paid to all employees and the fees paid to officers, directors, and trustees. Include the total of the employer's share of the contributions the organization paid to qualified and nonqualified pension plans and the employer's share of contributions to employee benefit programs (such as insurance, health, and welfare programs) that are not an incidental part of a pension plan. Complete the Form 5500 return if the organization is required to file it.

Also include in the total the amount of federal, state, and local payroll taxes for the year that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, Federal unemployment tax (FUTA), state unemployment compensation tax, and other state and local payroll taxes. Taxes withheld from employees' salaries and paid over to the various governmental units (such as Federal and state income taxes and the employees' share of social security and Medicare taxes) are part of the employees' salaries included on line 12.

## **Conflict of Interest Policy**

### **Article I** **Purpose**

The purpose of the conflict of interest policy is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

### **Article II** **Definitions**

#### **1. Interested Person**

Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

#### **2. Financial Interest**

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a.** An ownership or investment interest in any entity with which the Organization has a transaction or arrangement,
- b.** A compensation arrangement with the Organization or with any entity or individual with which the Organization has a transaction or arrangement, or
- c.** A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Organization is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

### **Article III** **Procedures**

#### **1. Duty to Disclose**

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

#### **2. Determining Whether a Conflict of Interest Exists**

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

#### **3. Procedures for Addressing the Conflict of Interest**

- a.** An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
- b.** The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

c. After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

d. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

#### **4. Violations of the Conflicts of Interest Policy**

a. If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

b. If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

### **Article IV** **Records of Proceedings**

The minutes of the governing board and all committees with board delegated powers shall contain:

a. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

### **Article V** **Compensation**

a. A voting member of the governing board who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

b. A voting member of any committee whose jurisdiction included compensation matters and who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

c. No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

### **Article VI** **Annual Statements**

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

a. Has received a copy of the conflicts of interest policy,

b. Has read and understands the policy,

c. Has agreed to comply with the policy, and

d. Understands the Organization is nonprofit and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.



**Article VII**  
**Periodic Reviews**

To ensure the Organization operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- b. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Organization's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

**Article VIII**  
**Use of Outside Experts**

When conducting the periodic reviews as provided for in Article VII, the Organization may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

**Council Name:** \_\_\_\_\_

**Council Number:** \_\_\_\_\_

**Name (Print):** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

## MOST COMMON QUESTIONS REGARDING KNIGHTS OF COLUMBUS STATUS

- 1) Question: Is the Knights of Columbus a charity under IRC Section 501(c)(3)?
- Answer: *No. The Knights of Columbus is a fraternal benefit society under IRC Sec. 501(c)(8).*
- 2) Question: Is the Knights of Columbus tax exempt?
- Answer: *The Knights of Columbus, as a fraternal benefit society under IRC Sec. 501(c)(8), is exempt from most forms of income tax but not all types of income tax depending upon the type of income. Most receipts of councils and assemblies would be exempt from income tax. Investment income or unrelated business income would be subject to tax. See IRS instructions for Form 990 or Form 990-EZ.*
- 3) Question: Is the Knights of Columbus exempt from sales tax?
- Answer: *No. State legislatures grant state sales tax exemptions or state or local property tax exemptions generally only to charitable organizations under IRC Sec. 501(c)(3). The Knights of Columbus is not under IRC Sec. 501(c)(3), it is under IRC Sec. 501(c)(8).*
- 4) Question: Are donations to the Knights of Columbus deductible?
- Answer: *Donations to the Knights of Columbus for fraternal or social purposes are never deductible. In some limited instances donations for charitable purposes (not fraternal or social) might be treated as charitable and possibly deductible under strict IRS guidelines and only by an individual donor taxpayer, never by a non-person taxpayer or entity taxpayer, such as a business or corporation. Use of this so called pass-through charitable donation exception under IRC Sec. 170(c)(4) will result in additional compliance and filing requirements for the council or assembly. See IRS instructions for Form 990, Form 990-EZ and Schedule A (Form 990, 990-EZ, 990-PF). Donations under IRC Sec. 170(c)(4) must be reported by filing Form 990 Schedule B. Such donations of \$250.00 or more must be acknowledged as required by IRS publication 1771.*
- 5) Question: Do councils, assemblies and council related home corporations need liability insurance?
- Answer: *Councils and assemblies should have property casualty liability insurance coverage. Council related home corporations should have property casualty liability insurance coverage. No such coverage exists or extends from the Supreme Council to councils and assemblies or to council related home corporations. The Supreme Council has arranged for liability insurance to be purchased by the councils through R.C. Knox & Company of Hartford, Connecticut. Councils should contact their State Deputy for information and the insurance application.*

## **MOST COMMON QUESTIONS REGARDING FORM 990 OR FORM 990-EZ FILING**

1) Question: Must a council or assembly file Form 990 or Form 990-EZ?

*Answer: Yes, if the gross receipts of the council or assembly are \$25,000.00 or more. If gross receipts are under \$25,000.00 and gross assets are under \$250,000.00, then no filing is required unless the IRS sent a form with a computer address label on it to the council or assembly. If that occurred, then a partial filing would be necessary. See the Form 990 and 990-EZ instructions.*

2) Question: What does "gross receipts" mean for the \$25,000.00 threshold?

*Answer: "Gross receipts" of the council or assembly include all receipts of the organization from all sources. All receipts that are deposited in the organization account are counted. "Gross receipts" is the total of all receipts. "Gross receipts" does not mean net receipts or income or gain or year end totals. "Gross receipts" includes all receipts even if given away to charity (although if gross receipts are less than \$25,000 excluding pass-through receipts and gross assets are under \$250,000, no filing is required). If the council has a fraternal or social event or charitable fundraising event or engages in charitable gaming, i.e. bingo, the "gross receipts" of the event before expenses or distributions to charity or prizes must be counted toward the \$25,000.00 threshold for filing.*

3) Question: Must the council or assembly have an EIN?

*Answer: Yes. Each council and assembly must have an employer identification number issued by the IRS. It is by these separate EIN numbers that subordinates are listed under the group exemption of the Knights of Columbus with the IRS as fraternal benefit society subordinate units under IRC Sec. 501(c)(8). Councils and assemblies should only use their own EIN not that of a State Council, another council, assembly, a parish or a council related home corporation.*

4) Question: Can councils and council related home corporations operate as the same organization?

*Answer: No. Councils and home corporations are separate organizations and must each have its own EIN, its own accounts and if necessary, its own filings with the IRS. Home corporations do not come under the group exemption of the Knights of Columbus. Depending upon how a home corporation operates and type of receipts it might be a nonprofit title holding organization under IRC Sec. 501(c)(2) or a nonprofit social club under IRC Sec. 501(c)(7), or it may be treated as a taxable corporation. If a liquor license is required it must be in the name of the corporation, not in the name of the council. Home corporations cannot be considered charitable or deductible by the IRS.*