

Tax ID and Tax Exempt Information

Taxes and Tax Exemption

Most student organizations believe that because they are essentially nonprofit and are comprised of students, they are automatically tax-exempt. This is false. There are 2 types of tax-exemption in which registered student organization's typically have an interest and which cause confusion: federal income tax and state sales tax. Related to federal income tax is the tax-deductible donation, which is of interest to organizations that desire to raise funds from sponsors.

Tax Exempt Status

Of the many categories of tax-exempt status, the most sought after status is under Internal Revenue Code Section 501(c)(3) because it is the only status that allows sponsors to write off a donation as an income tax deduction. In order to gain this status, RSOs would need to be granted it by the IRS through a process of application. Therefore, unless the organization applies for and receives 501(c)(3) status from the IRS, donations made to the organization are not considered tax-deductible as charitable gifts, and groups should inform potential contributors of this. That being said, sometimes potential sponsors will accept, in lieu of a tax-exempt status, a letter from Student Activities stating that the organization is not functioning as a for-profit group.

How to Apply for Tax Exempt Status

Filing for any type of tax-exempt status can be a tedious and expensive process, and typically requires the specialized training of a tax attorney and accountant. The application process can take from 6 months to a year, and the process alone costs a minimum of \$125, depending on gross receipts. Organizations that are granted a tax-exempt status, while they would not have to pay taxes if annual gross receipts are less than \$25,000, may still have to file tax paperwork annually.

Student Organization with a National Affiliation

Many local/national affiliations have federal tax-exempt status. Some of them may even have 501 (c)(3) exemption. Organizations with this type of affiliation should ask their parent organization if they are covered under the parent organization's tax-exempt status.

Tax ID Number or Employer ID Number (EIN)

An EIN is an identifying number given to an organization by the Internal Revenue Service (IRS). Simply stated, it serves as a Social Security Number for a group. Obtaining an EIN is a simple and quick process. An EIN is needed to open a bank account and apply for tax-exemption. Obtaining an EIN does not mean that an RSO is tax-exempt, however, organizations with a local/national affiliation should ask their parent organization if they are allowed to use the parent's EIN. Because of the importance of this number, the organization should save it in a safe place, where it will get passed on from year to year. It might be beneficial for the organization to give a copy of its EIN paperwork to the Advisor.