

THE TAX-EXEMPT ORGANIZATION

Alumni Class Organizations

An Alumni class organization (a Class) furthers the interests and welfare of Princeton University by promoting the fellowship and unity of the members of the class (classmates) and by providing a means of contact with Princeton University. The principal activities of a class organization are:

Fostering communications and interactions among and between “classmates” through regular communications about the membership and by creating opportunities to contact one another.

Fostering communications and interactions between the members of a Class and the University by informing members of University news, accomplishments, needs and scheduled events.

Providing a structure through which the members of a Class can, as a whole, express opinions on University issues, participate in current University life, assist in shaping and setting the University’s direction and policies, and support the University’s established short term and long term goals.

The Tax-Exempt Organization

The IRS recognizes certain organizations as “tax-exempt.” Under the Federal tax code, certain of these organizations are known as 501(c)(3) organizations. By a letter dated July 9, 1984, the Internal Revenue Service granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code to those classes and regional organizations of Princeton University that requested to be included. (This was granted since these organizations are considered to be under the “umbrella” of the University.) It is currently the policy of the University to encourage all new alumni classes to join under this umbrella tax-exempt status.

This is the same “public charity” status that the University enjoys and, as such, enables all such organizations to be eligible for virtually the same tax benefits, opportunities and exemptions as the University, provided that the University exercises “general supervision and control” over the organizations. This action clarifies the legal and tax-exempt status of the organizations and eliminates the uncertainties of no formal organization – that is the confusion that arises when organizations exist without governance and structure. Any organizations that were not included in the first group approved by the IRS, may become part of the University’s tax-exempt umbrella at any time by completing the various requirements associated with tax-exempt status.

Tax-Exempt Status

Choosing to qualify for tax-exempt status under the University's tax exempt umbrella is voluntary, not mandatory. Because the benefits are so significant, all current Princeton classes have chosen to qualify. Once a Class decides to qualify, however, its activities must conform to certain criteria spelled out in the Federal tax code and IRS guidelines, in order to maintain tax-exempt status. A Class may also choose to pursue qualification as a tax-exempt organization on its own. Whichever method is chosen, without qualifying as a tax-exempt organization with the IRS, classmates' dues (or gifts) to the Class are not legally deductible as "charitable contributions" on personal tax returns.

The following subjects are discussed so that all Class officers can gain an understanding of their responsibilities as officers of a tax-exempt organization and the criteria and rules for overseeing and conducting the activities of that organization:

- The Role of the University in the Class Organization
- Benefits of Tax-Exempt Status
- Responsibilities of the Tax-Exempt Organization
- Issue of Tax-Exempt Purpose and Scale of Non-Compliant Activities
- Deductibility of Dues and Fees
- Filing of Tax Returns
- Fund Raising Guidelines
- Record Keeping Requirements
- General Do's and Don'ts
- Personal Liability and Insurance
- A Class Constitution

This section is intended to be a general guide and to present certain pertinent information to any Class officer. However, tax law and IRS regulations, as well as the University's specific arrangements with the IRS regarding the umbrella tax coverage may change over time. Specific issues or questions regarding activities of a Class, its officers, or members should be directed to the Office of the Alumni Association and the University's Office of the General Counsel **prior to engaging in the activity.**

The Role of the University in the Class Organization

“General supervision and control” by the University is not specifically defined in current IRS regulations. Although there are obligations and responsibilities associated with this tax-exempt status (as explained in the following pages), in 1984 the University agreed to observe the following general rules vis-à-vis any alumni class organization:

1. The University would not involve itself in the active participation of policy decisions, activities or day-to-day operations of the organization.
2. The University would not be a signatory on any bank account of the organization, nor have any power to use or apply funds of the organization.
3. The University would not make any investment decision or determine the timing of investments for the organization. The University would have no voice in the selection of any investment advisor that the organization might use.
4. The University would have no voice in any business matter of the organization, any activity it might undertake, the type or location of its activities, the selection of its officers or directors, or similar matters.
5. The University would not be an agent of or representative of the organization in any respect.
6. The University would have no voice or power to determine when, how or where the organization might meet or otherwise conduct its activities.

It is recommended that all alumni organizations be unincorporated, unless specific and compelling reasons exist for incorporation. The principal reasons for this recommendation are:

1. The ease and flexibility of taking action.
2. Reinforcement of the situs of the organization at the University, for tax and other purposes. (This means that the organization remains “headquartered” at the University.)

Tax Benefits of Tax-Exempt Status

Organizations that are included in the University's tax-exempt umbrella enjoy several tax advantages:

1. As a 501(c)(3) organization, each Class or regional organization is able to offer its members documented tax deductibility for contributions and dues.
2. All material purchases for reunions and other organization purposes are exempt from New Jersey sales tax if the purchases are made in New Jersey. The proper forms to provide vendors may be obtained from the University Counsel's Office. A New Jersey sales tax exemption is not available for purchases in states outside of New Jersey, but the Class may apply for and receive an exemption from sales taxes of other states for purchases in those states.
3. Each approved organization is exempt from income tax on all investment income it may earn (interest and dividends), and on any realized capital gains (long or short term) on capital assets sold.
4. Unreimbursed expenses incurred by classmates engaged in the activities of the organization may be deducted by the individual. Unreimbursed mileage at the current IRS rate per mile may be deducted. Only those expenses incurred in the course of providing "service" to the organization are eligible for reimbursement or deduction. Unless services are clearly provided, members who attend meetings or other functions may not deduct their expenses.

Other Benefits of Tax-Exempt Status

An important consequence of remaining part of the University's group exemption is insurance coverage. As long as your class is part of this group, class officers and the class are covered if something should go wrong. To remain part of the group for these purposes, your class must have applied for tax exempt status as a member of the group and have been approved. In addition, each year the annual financial report (and the Reunions financial report in a major reunion year) must be submitted to the University and included in the University's tax filing.

Under most circumstances, University insurance will cover damages that would be required to be paid on behalf of a volunteer, class or class officer acting in an official capacity on behalf of the University. Our general liability insurance covers both bodily injury and third party property damage. If you are holding an event at a site that requires evidence of insurance, our Office of Risk Management can help by reviewing the agreement or contract and providing a certificate of insurance to the venue.

Each participating organization is eligible for non-profit postal mailing privileges. Mailings using the University's Alumni Records office will be eligible to use the University's permit. Other mailings must be handled locally, with arrangements for the special non-profit rate made at a local post office. Note that non-profit bulk mail can be extremely slow and, in this era of electronic communication, may not be worth the additional effort required. In addition, the additional cost for the labor involved often offsets the savings in postage if you are using a mailing house, including the University's Printing and Mailing Office.

Responsibilities of the Tax-Exempt Organization

The key responsibilities which all tax-exempt organizations must fulfill in order to maintain tax-exempt status include the following:

- Completion and timely return of the annual financial report and the annual organization activity report (refer to Section IX).
- Compliance with the IRS-defined “unrelated business guidelines.” Organizations are not permitted to engage in activities for profit that are considered to be “unrelated” to the purpose for which tax-exempt status was sought. The sale of T-shirts, reunion garb and other miscellaneous fund-raising activities are not considered to be unrelated to the general purpose of the organization.
- Clear segregation of **separate activities** unrelated to the purpose of the tax-exempt organization. Because it is possible that not all of the activities in which members of the alumni organizations might participate would clearly fall within the tax-exempt purposes of the organization, separate activities may be appropriate. Those separate activities might include a major reunion, travel tours, assistance to individual members or personal expenses (travel, housing, routine meals, etc.) incurred in connection with reunions.
- Clear segregation of funds related to the **separate activities** described in #3 above. Separate bank accounts (such as a Reunion Account), which are not identified with the organization's tax identification number, should be used for such separate activities. If there is any net profit or unused funds at the completion of the activity, that excess may be paid over into the organization. **Any deficit from such activities may not be paid from the organization's funds, but must come from outside sources. Further, such donations are NOT tax-deductible.** For such activities, there may be limited or incidental involvement by the organization. For example, major reunion publicity, mailing costs, telephone or other indirect and general costs may be incurred by the organization itself, if the costs are incurred in the support of all members of the organization, not just those attending the major reunion.

Issue of Tax-Exempt Purpose and Scale of Non-Compliant Activities

A Class organization may jeopardize its tax-exempt qualification in any one year by having a single event, which does not satisfy the IRS defined purpose of a 501(c)(3) organization, dominate the finances of the organization in that year. The most obvious example of this occurring is in a major reunion year for a Class.

During the off-years, a typical Class might have a budget of \$15,000-\$25,000. Of that, *PAW* subscription costs, class mailings, phone, and Alumni Council dues usually comprise the vast majority (80% or more) of the budget. Miscellaneous expenses supporting off-year reunions, special Class events and travel, for example, only represent a small percentage of the annual budget and therefore, do not disqualify the organization. The majority of the funds collected and disbursed are for qualified tax-exempt activities – in accordance with the purpose of the organization.

In a major reunion year, a class may easily spend in excess of \$100,000 on Reunions -- shifting the focus of the Class's annual expenditures from its tax-exempt purpose to that of supporting an event that the IRS defines as "a big party" – a non-qualified activity. (See the two figures below.) In order to protect its tax-exempt status a class must establish a separate Reunions account, segregating Reunion fee income (non-tax deductible) from the Class Treasury funds. It must also segregate its financial accounting of the major reunion from qualified Class activities and expenditures in that year. The major reunion is a non-event for tax-exempt qualification purposes: the reunion fees paid by Class members are not deductible as charitable contributions and the expenses incurred are not deductible by the Class organization. In other words, the act of sponsoring a major reunion will not disqualify a class from its tax-exempt status.

Deductibility of Dues and Fees

It is the opinion of University Counsel that the entire amount of annual "class dues" is properly tax-deductible. However, IRS regulations specify that if a donor receives "goods, services, benefits or privileges" in return for any gift, the amount of the deduction is reduced by the retail value of those goods, services, benefits or privileges. There is no certain formula for determining when such a reduction must be made or the amount of the reduction. Receipt of the *PAW* is not considered to be in return for dues, because the *PAW* is sent to all classmates, regardless of dues-paying status.

Gifts and contributions other than dues are also tax-deductible and subject to the same conditions cited above. **Fees** paid to attend or participate in certain events are not tax-deductible. Examples would be reunion fees, fees for class dinners or travel costs on class trips. Also, additional contributions to cover Reunions deficits are not tax-deductible.

Filing of Tax Returns

Each Class is not required to file separate annual Federal tax returns, although each approved class has its own Federal “Employer Identification Number” or EIN. A single “group” return is filed each year. The University prepares these returns based on the annual financial reports from each Class. These reports are due for the year ended June 30 and will be based on the financial reports submitted by August 15 each year (Refer to Section I-D -- Class Treasurer).

If a Class is listed with the IRS as part of the University’s group return and the University does not receive your financial report, the IRS will be notified that that class is not included in the group return. **That Class** is then responsible for filing its own Form 990 if its revenues exceed \$25,000; and if it does not submit a Form 990, that class may have to pay penalties. Therefore, it is always simpler to complete the report and mail it to the University by August 15.

Any State of New Jersey tax returns required will also be prepared by the University. (Princeton has been established as the situs of each Class included in the group filing.) Substantial activities in other states (including bank accounts) may expose a Class to the requirement to complete tax returns (or fulfill other requirements) in those states. Whenever possible, a New Jersey address should be used.

Fundraising Guidelines

To avoid conflicts with or duplication of University activities, all fundraising activities should have the prior approval of the University Development Office and Annual Giving. Class dinners and mini-reunions do not fall into this category. Also, gifts of substantial size or gifts of other than cash or marketable securities should have the prior approval of the Development Office and the University Counsel's Office.

Gifts to the Class must be either unrestricted or restricted to a purpose that is of a current nature. Endowed or permanent gifts are not to be accepted by a Class without involvement of the Development Office. Classes wanting to raise money for special purposes, such as community service programs, must first consult with the Office of the Alumni Association and sometimes the Development Office as well. Note that fundraising under the class name for an unrelated not-for-profit, such as Habitat for Humanity, is prohibited under the class’ 501(c)(3) status.

Gifts to Class or regional organizations do not qualify for Annual Giving or other credit.

Classes may be eligible for corporate matching gift programs, although many such programs exclude alumni organizations from eligibility. The University will not participate in any effort to avoid these exclusions. Discretion is urged in pursuing such matching gifts, so that matching gifts directly to the University are not diminished.

No gifts are to be received via indirect public support or from government entities.

Record Keeping Requirements

Financial records supporting all receipts and disbursements for a fiscal year must be kept by the organization's Treasurer for at least four years from the end of the current fiscal year. The statute of limitations for tax return examination by the IRS is three years from the filing of the return, which could be as long as four years from the end of the fiscal year. In addition, the University (through the Internal Audit Department) reserves the right to review and inspect the organization's books and records, as it does for all departments of the University. This includes the right to know to whom money is paid, from whom money is received and the purpose for such payments.

Documents that must be retained:

1. Bank statements
2. Brokers advices
3. Deposit slips
4. Paid invoices
5. Documentation supporting payments to officers and others who provide services to the organization for out-of pocket expenses.

Also, bank and investment accounts should be reconciled monthly on a timely basis.

Section I-D (Class Treasurer) describes in detail suggested accounting procedures in the paragraph entitled, "Reporting."

General “Do’s” And “Don'ts”

1. No awards (e.g., scholarships, fellowships, prizes) are permitted. Any awards that the organization would like to make should be made through the University. A transfer of funds from the Class to the University will fund the award on the University's books. If you would like to set up an award program, please work with the Alumni Association and University Counsel offices to ensure tax compliance.
2. There should be no contracts to either borrow money from or lend money to any entity other than Princeton University. Any agreements to either borrow or lend money should be cleared through the Office of the Alumni Association and the University Counsel's Office.
3. No endowed or permanent funds should be kept in Class accounts.
4. Class funds may not “inure to the benefit of any member, trustee, officer or other private person.” Use of Class funds to aid needy members of the organization or their families is not permitted.
5. IRS law states that organizations may not:
 - Use more than an insubstantial part of their funds to influence legislation.
 - Provide any assistance for a candidate for any public office (national, state or local).
6. No student or other loans are permitted.
7. Operating or invested funds may not be commingled with any other funds, in particular the personal funds of any member or officer, nor with funds that may be available for separate activities, such as major reunions.
8. The Tax ID number (EIN) of the organization may not be used other than for approved purposes of the organization (use of that number in connection with travel tour accounts, funds to aid needy members, etc. is not permitted).

Personal Liability and Insurance

A Class, as a qualified tax-exempt organization, is a legally-defined entity and the elected officers of the organization are responsible for their decisions and actions in their individual capacities. Each individual officer can be held legally liable for misrepresentations, illegal actions taken, or illegal behavior or consequences resulting from their actions. The University does not indemnify Class officers for their personal liability. For example, if the Treasurer were to abscond with the Class Treasury funds, the University is not liable, nor is it responsible to “cure” the Class. The Treasurer would be personally responsible for the theft and the other officers would have to pursue the matter themselves and determine the Class’s course of action and recourse.

The University has arranged for general liability insurance coverage for all alumni organizations who are under the University’s tax-exempt umbrella. All members of these organizations are covered, as well as the organizations themselves, their officers and directors, when they are engaged in activities appropriate for the purpose of the organization. This would cover, for example, a lawsuit against a class officer resulting from accidental physical injury to a class member during a reunion or other class event.