

Chapter Taxes FAQ

The following frequently asked questions will help you as a chapter officer or Alumni and Volunteer Corporation (AVC) member better understand the requirements as it relates to tax filing for undergraduate chapters.

Does our chapter have to file a tax return with the IRS?

Every undergraduate chapter of Sigma Phi Epsilon must file an annual return each year with the Internal Revenue Service (IRS). The chapter's return is separate from the one filed by the AVC. Filing every year is extremely important. IRS enforcement is an automatic "three strikes, you're out"—failure to report three times results in automatic forfeiture of your organization's non-profit status. Once a chapter has lost its tax exemption, they must reapply—a costly and cumbersome process.

What tax return does a chapter need to file?

Every chapter files a version of the IRS Form 990. The specific version is determined based on the total gross receipts and assets of a chapter. Gross receipts are the total revenues the chapter received from all sources during its tax year, without subtracting any costs or expenses. The chart below will help you identify the version of the Form 990 your chapter must file.

Gross Receipts and Assets	Form 990 Version
\$50,000 or less.	Form 990-N (e-Postcard) Search 990N on www.irs.gov to find the User Guide and instructions.
Greater than \$50,000 but less than \$200,000 and assets < \$500,000.	Form 990-EZ or Form 990 Search 990EZ on www.irs.gov to find the form and instructions
Gross receipts >\$200,000 and/or Assets >\$500,000	Form 990 Search 990 on www.irs.gov to find the form and instructions

Note: Be sure to include 0309 on the Form 990 as the group exemption code when filing.

Additionally, the chapter must file a **Form 990-T** if gross income from "unrelated trade or business" is greater than \$1,000. IRS defines gross income as gross receipts minus the cost of goods sold. This

can include earnings from the Chapter Investment Fund and payments received from non-members. This form is available at www.irs.gov.

Aren't chapters tax exempt?

Most of a chapter's revenue would be tax exempt (dues and member fees). However, chapters are liable for federal income tax on Unrelated Business income (UBI). Income from investments such as the Chapter Investment Fund, revenue from vending machines and renting rooms to non-members are examples of UBI. Every chapter—not the AVC—owns a Chapter Investment Fund (CIF) that is invested in a pooled stock fund and the earnings are considered UBI.

What is the Chapter Investment Fund (CIF) and why do chapters contribute to it?

The purpose and management of the CIF is outlined in Article VI of the Grand Chapter Bylaws. A CIF is a trust fund intended to advance the real estate objective of the chapter. The fund is commonly used for the purchase, renovation or furnishing of chapter facilities or university provided spaces. The fund may also be used to purchase Ritual equipment. For more information on how your CIF can be used, email [Ben Hutto](mailto:Ben.Hutto).

If the chapter doesn't withdraw funds from the CIF, does it still owe income tax?

Yes. Any time interest, dividends and realized gains are earned, it is a taxable event, just like your own personal investments.

What are realized gains?

When a security (stock) is sold for a gain in value, it is a realized gain, even if reinvested in another stock. Our portfolio managers are constantly trading stocks in the fund to maximize earnings. Each trade constitutes a taxable event when the stock is sold for a greater value than it was purchased.

New for 2020 - What's a K-1?

A K-1 is an IRS form that our investment manager sends us to report realized gains/losses, unrealized gains/losses, dividends and interest for the year. We only receive the K-1 in August for the prior year ended December 31st. We allocate the gains/losses, dividends and interest out to all the chapters invested in the CIF. You will receive this allocation from us in September of each year. Although the allocation reporting will only cover the year ended December 31st, you will use it for the current tax reporting year. For example if you have a tax year end of June 30, 2021, you will use the K-1 allocation statement from us dated September 30, 2020.

Must the undergraduate chapter and the Alumni and Volunteer Corporation (AVC) file separately?

Yes. The undergraduate chapter is an "unincorporated association" that derives its non-profit status from a group exemption granted the national Fraternity, a 501(c)7 corporation, in 1941. The Fraternity's headquarters is required to update its roster of chapters with the IRS annually. SigEp's group exemption code is **0309** and should be included on the undergraduate chapter return. The AVC is a separate corporation and must apply for its own non-profit status.

Are funds from fundraisers taxable income?

No. It must be included in your revenue total for the year, but is not considered UBI and will not be taxed.

Are donations to chapters tax deductible for the donor?

No. "Tax deductible" refers to a donor being able to deduct the amount of the donation from his/her income, thus reducing his/her taxes. Donations are only tax deductible when given to a charitable or educational 501(c)(3) corporation. Neither chapters nor AVCs qualify for this status. The SigEp Educational Foundation exists as 501(c)(3) corporation for this express purpose—to receive and manage contributions for educational scholarships and programs.

The chapter has no employees, so why would it have an EIN?

IRS doesn't care. IRS uses EINs to track organizations just as it uses social security numbers to track individuals. IRS requires all banks to relate either a personal social security number or EIN to any account opened—and it's a really bad idea to link a Fraternity bank account to anyone's personal social security number.

Will our chapter owe income tax?

It depends. Anything over \$1,000 in Unrelated Business Income (UBI) is taxable. If the chapter has over \$1,000 in UBI then they must ALSO file a 990T.

How much will the income tax be?

The Tax Cuts and Jobs Act replaced the graduated tax structure with a flat 21% rate on unrelated business income (UBI).

Is there any way to avoid owing income tax?

Chapters can avoid the tax on investment income only by following IRS procedures called "set-aside." This IRS provision (originally written in a case for Sigma Phi Epsilon Fraternity in 1969 which still stands as IRS ruling for all fraternal organizations) allows organizations to "set aside" net investment income for charitable, religious, scientific, or literary or educational purposes.

In other words, you can deduct all expenses for educational purposes from your CIF earnings (e.g. Balanced Man Scholarships, educational programming, facilities or materials, registrations for Carlson and Conclave and cost of sending members to Carlson and Conclave, etc.). Every chapter can document it pays \$1,525 per year in Carlson and Conclave registration fees plus any expenses paid by the chapter to attend, all of which should be deducted ("set aside") to offset otherwise taxable investment earnings.

Here's an example of "Set aside":

CIF taxable earnings

- Exemption
 - Set aside Carlson and Conclave registration fees
 - Set aside hotel and travel expenses for Carlson
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Net taxable income

Income Tax Due

The educational set aside expense can be paid from chapter operating funds without impacting CIF. It is treated as an offset to earnings.

When's the filing deadline with the IRS?

Tax returns are due on the 15th day of the 5th month after the chapter's tax year-end. If a Chapter's tax year ends June 30, the tax form would be due November 15 (the 15th of the fifth month after June 30). If you aren't sure of your year end, contact [Jennifer Meals](#), Finance Director at 804-823-9349.

What do I do if my chapter has lost its tax status?

If your chapter has lost its tax status, you need to file with the IRS to reinstate your status. The process to reinstate tax exempt status varies depending on the reasons the status was revoked and the length of time it has been revoked. It's primarily completing a form (usually Form 1024 for chapters) and submitting it along with a fee(s). You can find Form 1024 on the [IRS Website](#).

SigEp has also partnered with Greekbill for 1024 support. Through this support, Greekbill will provide a certified public accountant to assist you with filing your paperwork. The average fee for this service is \$1,500.00 payable to Greekbill in addition to the IRS fee of \$600.00. For more information, click [here](#).