

# Chapter and AVC 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.

## **Where do I start in understanding chapter or AVC obligations with the IRS?**

If terms like “nonprofit,” “tax exempt,” “tax deductible,” “unrelated business income” and “Form 990” are new to you, we’d suggest you start by listening to this 10-minute video on [Tax Compliance Best Practices](#).

## **Does our chapter or AVC 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 that must also be filed by the AVC. Filing every year is extremely important. While chapters and AVCs are rarely liable for paying taxes, the IRS requires that both file separate reports (called “Form 990”) annually to maintain tax-exempt status. Failure to file on time even once could result in fines and penalties. Worse, IRS enforcement is an automatic “three strikes, you’re out” – failure to report three times results in automatic forfeiture of your organization’s tax-exempt status. Once a chapter or AVC has lost its tax exemption, they must reapply – a costly and cumbersome process. (If you find your chapter or AVC in this situation, see the [Tax Exempt Reinstatement Process guide](#).)

## **How can I see our previous tax filings?**

Tax filings by tax-exempt organizations are public information and are published on the IRS website. You’ll need your Federal Tax ID (also known as an “Employer Identification Number” or “EIN”). Chapters and AVCs can find their Federal Tax ID in the [mySigEp Finance Dashboard](#) (Click the chapter designation, then dashboards, finance). The IRS requires all banks to relate either a personal social security number or Federal Tax ID to any account opened – and it’s a really bad idea to link a Fraternity bank account to anyone’s personal social security number. (There may be times when a personal social security number may be required as an identification such as when applying for a Federal Tax ID or by your bank under “Know Your Customer” or “KYC” regulations. That is fine and different than using your social security number in place of the chapter’s or

AVC's Federal Tax ID.) Once you have your Federal Tax ID, go to the [IRS Tax Exempt Organization Search website](#).

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

The IRS doesn't care. The IRS uses EINs to track organizations just as it uses social security numbers to track individuals. (The IRS is moving to call this a "Federal Tax ID," but the old EIN terminology is still quite common.)

### What tax return does a chapter or AVC need to file?

Every chapter and AVC files a version of the IRS Form 990. The specific version is determined based on the total gross receipts and assets of the chapter or AVC. Gross receipts are the total revenues the chapter or AVC 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
Normally \$50,000 or less.	<b>Form 990-N</b> (e-Postcard)

<p>Greater than \$50,000 but less than \$200,000 and assets less than \$500,000.</p>	<p><b>Form 990-EZ</b> or Form 990 (can file either)</p>
<p>Gross receipts of \$200,000 or greater and/or Assets of \$500,000 or greater</p>	<p><b>Form 990</b> (sometimes called “Full 990”)</p>

**Note:** *If your chapter's tax-exempt status has **never** been revoked, be sure to include 0309 on the Form 990 as the group exemption code when filing. Otherwise, your chapter must have its own stand-alone exemption and would **not** use 0309. The mySigEp Finance Dashboard indicates whether your chapter is on the group exemption or not. AVCs **never** use the 0309 group exemption code.*

**Aren't chapters and AVCs tax exempt?**

Most of the revenue of a chapter or AVC would be tax-exempt (dues and member fees). However, both entities are liable for federal income tax on Unrelated Business Income (UBI). Income from investments, revenue from vending machines and renting rooms to non-members are examples of UBI.

**Must the undergraduate chapter and the AVC file separately?**

Yes. The undergraduate chapter is an “unincorporated association” that originally derives its nonprofit status from a group exemption granted the national Fraternity, a 501(c)(7) corporation, in 1941. 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 for chapters that have **never** had their tax-exempt status revoked. Chapters that have **ever** had their tax exemption revoked must also have their own nonprofit status and the group code (0309) would no longer apply. The AVC is a separate nonprofit corporation and must apply for its own tax-exempt status.

### **When's the filing deadline with the IRS?**

Tax returns are due on the 15th day of the 5th month after the tax year-end for the chapter or AVC. If a 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, check your mySigEp Finance Dashboard.

If you need more time, you can file a **Form 8868** for an automatic six-month extension, but we'd recommend that be rare. It is easier to have the taxes filed when the details are fresh in your mind. After nearly a year, things can get hazy!

### **Is tax filing help available?**

In order to assist you with your tax filing, SigEp has partnered with greekbill, which has a tax filing module for your convenience (available to all chapters and AVCs, **not** just those who use greekbill). The fee to file a 990-N is \$39 and the 990-EZ is \$99. This service is an e-filing system that walks you through filing your 990 to ensure that everything is correct. (It is accessible to chapters through [mySigEp](#) by clicking on greekbill in the upper left corner. It is accessible to AVCs through [greekbill.com](#).) Greekbill can also help organizations who need to file the full 990. The discounted hourly fee for that is \$150 and the total will be dependent on the scope of the work required. To learn more about filing a full 990 through greekbill CPA, contact them at [taxreturns@greekbill.com](mailto:taxreturns@greekbill.com).

### **Are donations to chapters or AVCs tax deductible for the donor?**

No, donations to a 501(c)(7) organization are not. "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 typically qualify for this status. (The restrictions on what a 501(c)(3) can spend on aren't compatible with typical chapter and AVC needs. The SigEp Educational Foundation exists as a 501(c)(3) corporation for this express purpose (among others) – to receive and manage contributions for educational scholarships and programs.

It is important that chapters and AVCs clearly state in any solicitations or thank you notes that donations directly to them are not tax-deductible to the donor. (The IRS explicitly asks about this on the full Form 990.)

If your AVC is considering creating a 501(c)(3) in support of your chapter, we'd strongly encourage you to reconsider. If the reporting requirements for 501(c)(7) organizations discussed in this document seem complicated, know that the requirements for a 501(c)(3) are **far more complicated**. Most states require registration and reporting of tax-deductible fundraising activity in the state. Compliance with these laws requires initial registration and ongoing reporting in multiple states when soliciting donors in multiple states, such as (but not limited to) an online campaign. Here's an **article that explains more**. In addition, the IRS has revoked tax-exemption for chapter-level 501(c)(3) organizations.

### **Will our chapter or AVC owe income tax to the IRS?**

It depends. Any gross income over \$1,000 in Unrelated Business Income (UBI) is taxable. If the chapter has over \$1,000 in UBI then they must file a **Form 990-T in addition to** their other Form 990. The IRS defines gross income as gross receipts minus the cost of goods sold. This can include earnings from investments and payments received from non-members. The rules about UBI are complex and can hinge on what seem to be minor details. If you have more than \$1,000 in income from non-members, we encourage you to consult with a CPA.

### **How much will the income tax on our UBI be?**

The Tax Cuts and Jobs Act of 2017 set a flat 21% federal rate on UBI. (Some states also tax UBI.)

## Is there any way to avoid owing income tax on UBI?

Chapters and AVCs can avoid the tax on **investment income only** by following IRS procedures called “set-aside.” In other words, if the UBI is not investment income, taxes must be paid. For investment income, there is an IRS provision (originally written in a case for Sigma Phi Epsilon Fraternity in 1969 which still stands as the IRS ruling for all fraternal organizations) which 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 investment earnings (e.g., Balanced Man Scholarships, educational programming, facilities or materials, registrations for Carlson and Conclave and cost of sending members to Carlson, Ruck, Tragos Quest and Conclave, etc.). Every chapter can document it pays \$1,825 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”:

Investment Taxable Earnings	\$2,850
Exemption	-\$1,000

Set aside Carlson and Conclave Registration Fees	-\$1,825
<b>Net Taxable Income</b>	<b>=\$25</b>
<i>Income Tax Due</i>	\$5.25

The educational set aside expense can be paid from chapter operating funds. It is treated as an offset to earnings.

AVCs may be able to do a similar process but won't have the \$1,825 fixed fee as a starting point. Many AVCs support their chapter with funds for the Balanced Man Scholarship or travel to SigEp leadership programs which would qualify.

To reiterate, this set-aside process is limited to investment income only.

**What do I do if my chapter or AVC has lost its tax-exempt status?**

Don't worry. SigEp developed the [Tax-Exempt Reinstatement Guide](#) to help the process. If you need help, please reach out to SigEp's finance team at [accounting@sigep.net](mailto:accounting@sigep.net).

Remember, the only alternative is to start paying taxes and that is much more costly than reestablishing your tax-exempt status. And timing counts! It is important you get reinstated promptly as the penalties and interest can grow surprisingly fast.

For chapters who have had their tax-exempt status revoked by the IRS, the Grand Chapter bylaws state: "In the event that the chapter's tax-exempt status is suspended or revoked by the IRS, or a state taxing authority, the vice president of finance, in conjunction with the AVC and a mentor for the Vice President of Finance, must immediately move to resolve the issue and obtain reinstatement of the chapter's non-profit tax by adopting the Fraternity's preferred financial platform vendor for all dues collection and tax filing services for at least three years from the date of the suspension or revocation. In the event there is no mentor for the Vice President of Finance, one shall be appointed by the AVC or the District Governor in the absence of an AVC. A chapter can opt out of the preferred platform's services by proving reinstatement progress within 3 months of tax-exempt suspension or revocation with support of a local certified professional accountant or tax professional."