

# “What You Need to Know About Your Club’s Financial & Legal Responsibilities, about Raffles, Record Keeping, and other FAQ’s”

A Zoom Conversation with Beate Bolen, GCFM Treasurer

Presented on Feb. 8, 12, and 21, 2024

Please remember that these are guidelines only. I hope the information is helpful. Each club has different goals, missions and resources, so your particular situation may require the help of an accountant.

# What I plan to cover

- A brief overview of general treasurer ( and officer) responsibilities
- Tax Exempt Status (501(c)(3) - what does it mean and how do we get and maintain it?
- Clarify the different ID numbers – there are so many- what are they for?
- Clarify what the different exemption letters and other certificates mean

# What I plan to Cover - continued

- What Are my Required Filings- Federal, State and GCFM
- Do we need a Raffle Permit
- What records should we keep?
- Club Questions

# What are my responsibilities?

We have put together a “**Managing Club Finances**” document that highlights many of the specific responsibilities of a Club Treasurer. It includes specific filings required, and their deadlines. It can be found under the “Resources Tab” on the GCFM website

<https://www.gcfm.org/resources>

# Here are the Bullet points covered in “Managing Club Finances”:

- Maintain Bank Account(s)
- Collect the Money and Pay the Bills
- Keep the “Books” - You must keep written records of all monetary transactions— not just a check register or bank statement
- Prepare Financial Statements-The listing of your revenues and expenses is called an income statement or your profit and loss statement (P&L). Use this to prepare reports to your Club and to complete your Tax and Attorney General required filings
- Prepare a Budget
- **Obtain/Maintain Tax Exempt Status (501(c)(3) organization, Public Charity**
- **File Required Tax/Information Returns** –List of the filings required for the IRS, MA Attorney General’s Office and Secretary of the Commonwealth
- **Keep Required Records and Numbers** – this gives a general overview of what information Clubs are required to keep and maintain. (We have some additional guidance about document retention and a sample policy on our website)

# Obtain/Maintain Tax Exempt Status (501(c)(3) organization, Public Charity) – What Does This Mean? Why (and how) do we do that?

- Allows you to receive tax deductible donations and avoid paying state and federal taxes on your club's income.
- Qualifies you for a Sales Tax exemption (ST-2 certificate) (this must be applied for separately from the MA Department of Revenue). Go to MassTaxConnect ( <https://www.mass.gov/how-to/create-your-masstaxconnect-individual-account> ) and register your business. NOTE: ST-2 will show a Certificate Number, and a MA Taxpayer ID # which is different than your Federal EIN and is different than the Attorney General number.
- Massachusetts charities are required to Register with the AGO and submit Annual Filings (Forms PC). Please be aware of some significant changes to filing requirements for all charities filing with the Massachusetts AGO's Non-Profit Organizations/Public Charities Division: Effective September 1, 2023, charities will need to submit all initial registrations and annual Form PC filings to the AG's Office using the online Charity Portal. The office will no longer accept paper submissions.
- GCFM offers the opportunity to be under the GCFM 501(c)(3) umbrella (One-time application)—see GCFM.org and select Resources. (<https://www.gcfm.org/resources> ) Annual filing with GCFM is required to stay under its umbrella - due October 15th

# By the Numbers – there are so many!

**EIN Number** -An Employer Identification Number (EIN) is also known as a Federal Tax Identification Number, and is used by the Federal government to identify a business entity. (Equivalent to an individual's Social Security number)

**MA Taxpayer ID number** (Different than your EIN number)- if you have employees, collect sales tax or have a sales tax exemption, you have one of these

**Attorney General's Account Number** – Number assigned to Public Charities when registered with the State of MA – You will use this number when filing your form PC. It will also be listed on the Certificate of Solicitation

**Exemption Certificate Number** (on your ST-2) – This Certificate verifies that your organization is exempt from paying Sales Tax



# What is an Exempt Organization Determination Letter?

- A ruling or determination letter is issued to your organization by the IRS when the application and supporting documents establish that it meets the particular requirements of the section under which it is claiming exemption.
- This Determination Letter should be part of your Club's permanent records.
- A copy is frequently requested as proof that your organization is an exempt organization.
- What happens if you lose it? – Contact the IRS, or if under the GCFM umbrella, contact our Second Vice President, Susie MacPherson

# What is a Certificate of Solicitation?

- Prior to soliciting contributions in Massachusetts, or having others solicit contributions on your behalf, a charitable organization must obtain a valid Certificate of Solicitation from the Non-Profit Organizations/Public Charities Division of the Attorney General's Office (AGO). This Certificate must be renewed on a yearly basis.
- To receive or renew your Certificate of Solicitation, you must complete Schedule A-1 and Schedule A-2 of the Form PC and submit it to the AGO, along with the rest of Form PC, other required attachments, and the appropriate filing fee. No fee in addition to the Form PC filing fee is required.

# What do we need to know about Sales Tax and Tax exemption

- 501(c)(3) organizations are generally exempt from paying income taxes on revenues generated in connection with their “charitable” mission. There are some exceptions (for example, raffles. More guidance on that later)
- For Sales tax, the question is a bit more nuanced. Tax-exemption applied to nonprofits means that, in most cases, the sales tax for certain sales is waived for transactions relating to the charity’s “charitable mission.” In some states, including Massachusetts, exemption from paying sales tax depends on the nature and volume of the sales activities by the non-profit.
- In many states, including Massachusetts, if a non-profit vendor is engaged in business and making sales of taxable items or services, the non-profit is obligated to collect just like any other vendor.
- 501(c)(3) status qualifies you for a Sales Tax exemption (ST-2 certificate), but this must be applied for separately from the **MA Department of Revenue**. Go to MassTaxConnect NOTE: ST-2 will show a MA Taxpayer ID #, which is different from your Federal and Attorney General numbers.
- A copy of your Form ST-2 is usually given to business who charge sales tax, as well as a Form ST-5

# What is a Certificate of Exemption?

- The Certificate of Exemption (Form ST-2) certifies that the organization named is an exempt purchaser under Chapter 64H, section 6(d) or (e) of the Massachusetts General Laws.
- The Certificate is good for ten years, and is usually renewed automatically
- It permits the organization to make purchases for the organization without being charged Sales Tax, as long as those purchases are used to conduct the business of the organization.
- Usually a Form ST-5 (Sales Tax Exempt Purchase Certificate) must be issued to the seller along with a copy of Form ST-2, verifying that your organization is an exempt purchaser.
- A Certificate of Solicitation is required before applying.

Remember that your organization has annual filing obligations to:

- Federal government (IRS) – Form 990-N or 990-EZ
- State of Massachusetts Attorney General’s Office – Form PC. And if incorporated, an Annual Report
- GCFM (only if your club is under the GCFM 501-c-3 umbrella)-  
501(c)(3) Umbrella Renewal

# What Are my Required Filings - Federal :

- Tax-exempt organizations are required to file an annual information filing with the Internal Revenue Service.
- 8 items of very basic information about the club; no fee to file. The individual doing the filing first must set up a login, including some security questions. **Do not skip this filing, even if late.** Failure to file 3 years will result in loss of your tax-exempt status, which is complicated and expensive to restore.
- **File no later than 4 ½ months after the end of your fiscal year** (November 15 for “umbrella” clubs)
- Most can satisfy the requirements by submitting **Form 990-N**, Electronic Notice (e-Postcard) Form 990-N is submitted electronically; there are **no paper forms**.
- Small tax-exempt organizations generally are eligible to file Form 990-N to satisfy their annual reporting requirement if their annual gross receipts are normally \$50,000 or less. (Gross receipts greater than \$50,000. annually require a longer form filing - Form 990 or Form 990-EZ)
- Go to Tax Exempt Organizations Search (TEOS) to search for your club to see past years' filings. IRS.gov is extremely helpful. Go to Charities & Non-Profits section and then Annual Reporting & Filing section. See the online User Guide for easy instructions for filing the 990-N and how to resolve any issues. Phone support is also good.

# What Are my Required Filings - State of Massachusetts :

- All 501(c)(3) clubs must file a Form PC (for public charity) with the AG's office (AGO) within 4 ½ months after the end of your fiscal year.
- Effective June 2023, AGO will no longer require nonprofit organizations with gross support and revenue of \$25,000 or less to submit a Federal Form 990-EZ as part of their annual Form PC filings. The previous threshold for including a 990-EZ with the Form PC filing was \$5,000.
- All clubs with gross revenue of more than \$25,000 also must submit an IRS Form 990-EZ with the Form PC. Complete the 990-EZ first and include Schedule A, which includes five years of history (if available). Also, complete Schedules A-1 and A-2 of the Form PC. You must be current in your filings with the AGO to receive your annual Certificate for Solicitation/permission to fundraise in MA.
- Instructions are available on the AGO website. \$35 filing fee to be paid at the web-based payment portal. Fillable forms are available at IRS and AGO websites.
- Record how you mapped your financial data to the lines in these forms, so it's easy to do it the same way each year.
- Secretary of the Commonwealth—*for incorporated clubs only*. Corporations must file an annual report by November 1 (\$15 fee) and report changes of officers and address. Fillable forms and online options are available.

# What are my obligations to GCFM?

- To maintain your status under the GCFM 501-c-3 umbrella, we require clubs to complete an annual renewal form and supply us with some basic information about your club and your finances, in order for us to meet our IRS obligations to know the clubs under our umbrella. This form is due to GCFM by October 15<sup>th</sup> each year
- All Federated Garden Clubs are required to pay their dues for GCFM's fiscal year (July 1-June 30). They are due by May 1<sup>st</sup>.
- Please note that Clubs may choose to purchase Liability Insurance through GCFM's policy. If you choose to do so, application and payment is due by April 15<sup>th</sup>. The new form will be added to the website shortly.



# Do we need a Raffle Permit?

- Explicit and detailed guidance on raffles, is offered by Office of Attorney General on the Mass.gov website - <https://www.mass.gov/guides/guidance-on-raffles> In this guide you will find information on the rules and guidelines to follow if your organization is considering holding a raffle in Massachusetts. A copy of the Guidance on Raffles can also be found on the GCFM Resources page <https://www.gcfm.org/resources>
- Calling it an “Opportunity Drawing” does not relieve you of the requirements detailed by the Attorney General.
- “Opportunity Drawing” does not appear to have a legal meaning in the State of Massachusetts, though elsewhere, an opportunity drawing is a prize where everyone who comes to the event has an equal chance of winning and no one pays for a ticket.
- A raffle is defined as a lottery in which each participant buys a chance to win a prize
- Only certain organizations can hold raffles in Massachusetts. Raffles are considered gaming and are covered by explicit rules.
- All raffle proceeds must be used for educational, charitable, religious, fraternal or civic purposes or for veterans' benefits

# Raffles - requirements

- If the organization is a public charity, in order to hold a raffle, it must be registered with the AGO and in compliance with the reporting requirements
- The public charity must also be in possession of a Certificate of Solicitation. If the public charity is unable to document its compliance with the reporting and certificate requirements, it should contact the AGO's Non-Profit Organizations/Public Charities Division.
- Before conducting a raffle, the organization must obtain a raffle/bazaar permit from the City or Town clerk where the raffle is going to be held.
- If a raffle's ticket price is more than \$10 or the raffle has a prize worth more than \$10,000, there are additional requirements

# Raffles- the process to obtain a permit

- The permit application is submitted and reviewed by the City or Town Clerk.
- It then goes to the Chief of Police who decides whether or not to endorse it.
- If endorsed by the Police Chief, it is returned to the Clerk who issues the permit.
- The Clerk issues a permit valid for one calendar year and sends a copy to the Commissioner of Public Safety and to the Lottery Commission.
- The Lottery Commission sends a financial form for the organization to complete within 10 days after the raffle is completed.
- If the application is not endorsed by the Chief of Police or not approved by the Clerk within 30 days of applying, the organization may seek judicial review in the District Court.

# Activities after the raffle

- The organization must file a tax return with the Lottery Commission and pay a 5% tax on the gross proceeds- that is \$5 per \$100 received (that is not the net amount after expenses, but the gross amount received) ten days after the raffle. The organization will receive the forms from the Lottery Commission after the permit is issued.
- 30 days after the raffle/bazaar permit expires, the organization must file with the City or Town Clerk. The Clerk will then send one copy to the Commissioner of Public Safety.
- The permitted organization must keep all records relating to the raffle for at least one year after the financial report is submitted. However, if the organization is a public charity reporting to the Attorney General, it must keep the records for three years after the filing of the Form PC.

# Our Club has been around for many years- What records should we keep?

- EIN, AG and MA Taxpayer numbers, GCFM umbrella group exemption number, bank account number(s), 501(c)(3) determination letter, organizing documents, ST-2 correspondence—**keep permanently** (recommend you scan these and keep electronic copies as back-up).
- **Keep permanently** minutes, annual financial reports, and tax/information returns—Form PC and 990-N or 990-EZ. Tax/info returns you submitted also are available for public viewing and download on the MA AGO website.
- Income and expense documentation, bank statements, deposit slips, and other records— it varies - **generally keep for 3 to 7 years after the due date of the tax return for that year.** Select reports of key club activities may be useful much longer.
- More detailed guidance on what records your organization needs to retain can be found on the GCFM Resources tab- ***Nonprofit document-retention requirements and Sample Document - Retention & Destruction Policy***

# Questions

- *If a treasurer cannot find their original exemption letter (the one they would have received through GCFM if they are under our umbrella), how do they get a copy of a document proving the Club falls under the 501 (c)(3) umbrella of the Garden Club Federation of Massachusetts? (This is needed if they wish to apply for a MA Sales Tax Exemption Certificate).*
- They cannot obtain a copy from the IRS because they are under the GCFM umbrella. Our Second VP, Susie McPhearson, can issue a replacement (not copy) But, we strongly encourage you to look for (and keep!) this in your permanent files first, as this process could become burdensome. The replacement says that the club is under the GCFM group exemption and includes as attachment proof of our group exemption from the IRS

# More Questions

- *Are we limited to the amount of money we can set aside to assist members who may need financial assistance specifically in regards to attending our end of year banquet?*

Not a black and white answer, but you are safest to use money collected as dues rather than donations or other fund raisers.

Let's look at a few of the different areas in which spending rules govern 501c3 organizations.

- **Charitable Purpose** -A 501c3 organization can spend funds only related to its tax-exempt philanthropic purposes. If the nonprofit falls under one of these categories- charitable, educational, religious, scientific, literary, or other specified purposes, then it is only under this category that they can make spends. Any expense should be made keeping its mission and purpose in mind.
- **Prohibition of private benefit** -Any funds and assets accrued during a 501c3 fundraising initiative cannot benefit private individuals or stakeholders. Charity organizations are bound to further the cause for which they have received tax-exempt status.
- **Program expenses vs. Administrative expenses** -To maintain the 501c3 status, a charitable organization must spend a significant amount of money on program expenses that directly impact its mission. Administrative expenses, while valid, cannot exceed the amount spent on program-related activities. The purpose of the charity is to serve public interests ultimately.

## More Questions

- *As a 501 (c) (3) are we limited to the amount of money we deposit in a Certificate of Deposit? Or income on interest?*

The limitations would be dictated by your bylaws, policies, or Board restrictions. I am not aware of any non-profit restrictions on the absolute amount. The prudent guideline to follow is having sufficient liquid funds to cover operational expenses in a timely fashion.

- *What is the recommended time we keep our financial records? I have three, maybe four large bankers boxes in my garage and would LOVE to lessen the load for the next Treasurer.*

There is no “one size fits all” answer to this, as each club’s structure, resources, and size is different. However, there is very good guidance offered on our GCFM website under the Resources tab. You will find there ***Nonprofit Document Retention Requirements***. I also recommend that your club create a written document retention policy. There is a Sample Document Retention and Destruction Policy on the website as well.



## More Questions

- *Does our Club need prior approval from the Federation or our executive board to set up a Scholarship Endowment Fund?*

No, the Federation has no say in this decision for your club –but you might take a look at ***Endowments- some things to consider, and additional resources, from the National Council of Non-profits***, on our website Resources tab

- *Would having our own Scholarship Fund allow us to solicit donations that would be tax deductible? Is there a limit to the amount we could hold in this Fund?*

If you are current with your required FORM PC filings, including Schedule A-1 and A-2, your club will receive a Certificate of Solicitation, which allows you to receive tax deductible donations. As long as the funds are used for the purpose stated in the solicitation, I am not aware of any limitation on how much the fund can hold.

## More Questions

- *If we do solicit donations for a Scholarship Fund, as a 501 (c) (3) would we qualify for discounted postage? Would we qualify for a discounted postage rate for our everyday mailings? (Trying to brainstorm ideas to reduce our operating costs.)*

Nonprofit postage is lower than regular prices, but not everyone can qualify. There is specific guidance for Special Prices for Nonprofit Mailers given by USPS on their website at

<https://pe.usps.com/businessmail101?ViewName=NonprofitPrices#:~:text=Nonprofit%20postage%20is%20lower%20than,eligible%20for%20nonprofit%20postage%20privileges> .

I recommend you take this question to your local Post Office and if necessary, speak with your postmaster.

- *Are there any tax breaks that we are not utilizing that either the Federation or other Garden Clubs under the Federation have found useful?*

This is a question that I recommend you ask a tax accountant. Each Club is different, so there is no one size fits all answer to this. Because of that, any advice needs to be tailored to your club.

## More Questions

*Will these slides be available for future reference?*

I will try to make them available on our GCFM website after the third meeting. I plan to incorporate some of the questions from each of the three meetings

*If we are a Corporation then we actually have 4 filings to do, correct?*

Yes, IRS Form 990, Massachusetts Form PC, Massachusetts Annual Report, and if under the GCFM umbrella, GCFM 501-C-3 Renewal form

*How do we know if we are under your umbrella or independent?*

This information would be on the Exempt Organization Determination Letter you received when you became a 501-c-3 (this should be part of your permanent records) If you are still unsure, you can contact our Second Vice President, Susie McPherson. She can confirm whether you are under the GCFM umbrella-

[rmacpham@me.com](mailto:rmacpham@me.com)

*Is there a way for clubs to use Venmo and similar systems to collect dues and fees? Is Venmo used by any club to collect dues--is that encouraged or discouraged for non-profits?*

Many clubs use electronic payment systems, including PayPal, Square, Venmo and Zelle, for a variety of purposes. They can be used for dues, event tickets, plant sales, etc. Some are better than others for those purposes. They each offer different degrees of record keeping ease, and have different fee structures. Some allow you to create forms that collect your necessary information for record keeping, some allow only the transfer of monies. Each system should be evaluated carefully to make sure it provides you the security and information you require, and fees you can afford. Each club must establish their own relationships with these electronic payment services, since you are responsible for your own records and member and customer security. It is not something GCFM can offer you.

## More Questions

***Can a Garden club go to the Flower Market in Boston, which is wholesale? How can we do this?***

Flower Markets usually have many vendors. Your club would need to establish a relationship with each vendor you plan to use. You should contact the vendors individually to see if they allow it. If so, they will require a copy for your Form ST-2 (Certificate of Exemption) and an ST-5 made out for that individual vendor.

***Could we consider the cost to maintaining our website partly program and partly administrative?***

I'm most cases yes. For example, if you use your website to offer information about the club membership, and activities, as well as provide details about your programs, you are using it for both purposes.

***Are there any rules of thumb for how much money we can have in the bank as a non-profit?***

While there are no limits I am aware of on how much your club can have in the bank, do consider your liquidity needs when deciding how much to have in checking, savings or longer term CD's.

**Are there limitations for what you can use the tax exempt number for being a Garden Club?**

Yes. There is some preliminary information in the "Some Treasurers' Frequently Asked Questions" document on our GCFM.org website resources tab. There is a great deal more detailed information at <https://www.mass.gov/guides/sales-and-use-tax> It must be intrinsic to your charitable mission.

## More Questions

*When I log into the Attorney General's Website to file Form PC, the name that comes up is Garden Club Federation of MA*

If you are under the GCFM 501-c-3 umbrella, that will often be the case, but the address and other information should be your club's.

*When I go to file my Form PC, which Tax year am I selecting?*

For your federal returns, the tax year you choose for filing is the year that contains the beginning of your fiscal year, so for example, for fiscal year July 1, 2022 to June 30, 2023, the form 990 tax year is 2022.

On the MA Attorney General's site however, it allows entry by fiscal year, and therefor the filing is for, in this example, the year 2023. Thank you Susan Rogalski for pointing out that confusing anomaly.

# Resources for Treasurers on the GCFM website:

- Managing Club Finances
- Guidance on Raffles
- Tax Implications for Non-Profits
- Treasurers FAQs
- Non Profit Document Retention Requirements
- Sample Document - Retention & Destruction Policy