Tax Requirements

NOTE:	USBC Headquarters is not responsible for misinterpretation of information in this section. Associations should contact the Internal Revenue Service (IRS) or a tax advisor experienced with tax-exempt organizations.

Contact the IRS

Contact the IRS at 800-829-3676, 800-TAX-FORM, or at IRS.gov for tax-related questions. The association may also want to review the Tax Time Guide: Free tax return help available in-person and online and IRS Guide to Community-Based Free Tax Preparation. The guide contains details on materials available via the internet or telephone regarding filing options, tax publications, and tax education or assistance program information.

Most materials are free and available throughout the year. The guide also lists telephone numbers for recorded tax information and automated refund information, as well as IRS mailing addresses.

For TTY/TTD access, call 800-829-4059 with tax questions and requests.

Benefit of tax-exempt status

- Are generally exempt from federal and state income taxes (income from a trade or business unrelated to the exempt purposes of the association will be subject to tax).
- Are not required to pay federal unemployment taxes.
- May be entitled to exemption from state and local sales and use taxes (check with the State Department of Revenue).
- May be exempt from property taxes on equipment and real estate (check with the State Department of Revenue).
- May be eligible to apply for certain grants that are only available to tax-exempt organizations.
- May apply for a bulk-mailing permit from the United States Postal Service.
- Can accept charitable contributions in the form of gifts – donors can deduct the contribution on their tax return.
- May be able to obtain a gaming license or permit from the state government office to conduct gaming events for charitable causes.

As outlined in the *USBC Association Policy Manual*, an association must maintain its tax-exempt status to maintain its charter.

Every USBC association will be under the national group exemption and classified as tax exempt under Section 501(c)(3) of the Internal Revenue Code and must comply with IRS requirements.

NOTE:	Per IRS regulation, if an organization fails to file a return for three consecutive years, it will lose its 501(c)(3) exemption.

Item 1
Tax Exempt Status

"Tax-exempt status" means the association is exempt from federal income taxes as explained under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

The IRS grants this favorable status and has the authority to revoke the status should an association commit specific infractions. For example, it is critical that associations continue to operate in a manner consistent with the national organization's purpose as stated in the USBC Bylaws. Please refer to Article III of the USBC state and/or local bylaws, which highlight USBC's purpose. If an association fails to meet this condition, the IRS may revoke the tax-exempt status.

Tax Requirements

- Comply with the 501(c)(3) status and adhere to federal, state and local laws as well as the filing of required tax forms. Examples include but are not limited to**:** IRS Forms (990, Schedule A and Schedule B if applicable), Payroll Taxes, State Corporate Statutes and State Workers Compensation.
- This would also include recording and filing meeting minutes as required by state law. The IRS has a Form 990 that all associations will need to submit. Form 990 has 3 versions: 990-N, 990-EZ, and 990. See Item 2 to determine the correct form for your association; also see IRS.gov for the forms.
- The IRS is using the "commensurate test" to create and enforce a standard that ensures exempt organizations are spending in line with their resources. Simply put, this means that the IRS is going to ensure that associations are not hoarding their funds but are spending the funds to support the purposes for which they received their exemption from taxation.
- If an association violates IRS requirements it may have its exemption from taxation cancelled. Additionally, if the IRS were to challenge the exempt status of an association, the potential financial impact on the association coupled with legal fees to defend an IRS proceeding, could jeopardize its continued viability.
- The IRS expects the local and state associations chartered by USBC to have procedures and policies in place to ensure the activities and operations of the associations are consistent with those of the parent organization. The IRS will use Form 990 Report to monitor this requirement.
- Create and maintain board minutes, policies, documents related to governance and fundraising, and reports related to administrative activities. The IRS expects that actions taken by associations in board and committee meetings to be documented.
- Maintain information concerning the results of their activities and the measurement of their performance of their exempt purposes.

Item 2
Tax Forms

Each state and local association is required by the Internal Revenue Service (IRS) to file certain tax forms.

Item 2a

Forms 990, 990-EZ, 990-N (Annual Information Return)

Used for filing the association's annual information (e.g., revenue and expenses). A 990, 990-EZ or 990-N is REQUIRED for all associations regardless of gross revenue (receipts).

See the chart below to determine which annual information return is required for your association.

Form 990 Series Information	Form to File
Gross receipts normally ≤ $50,000	990-N
Gross receipts > $50,000 and < $200,000, and Total assets < $500,000	990-EZ or 990
Gross receipts ≥ $200,000, and/or Total assets ≥ $500,000	990

Gross receipts are the total amounts the association received from all sources during its annual accounting period, without subtracting any costs or expenses. Examples of gross receipts are tournament entry fees, ways and means committee projects, and local membership dues and/or processing fees.

It should be noted, however, that USBC local associations fall into the category of "agents" as defined by the IRS in the "General Instructions for Form 990 and Form 990-EZ." As an agent, the dues money collected on behalf of the state association(s) and national organization **SHOULD NOT** be included within an association's gross receipts.

A tax-exempt organization's annual information return must be made available for public inspection upon request. Therefore, it is critical that the form is complete and accurate and fully describes the association's programs and accomplishments.

How the public perceives an organization in such cases may be determined by the information presented on these forms. A potential donor or sponsor may rely on the contents of this form prior to making a donation.

Filing Considerations

- File 990, 990-EZ, 990-N by the 15th day of the fifth month following the close of the fiscal year. Since each association's fiscal year ends July 31, start after August 1, but file no later than December 15.
- Schedule A – "Organization Exempt Under Section 501(c)(3)" – is filed along with Form 990/990-EZ.
- The completed forms are to be sent to: IRS, Ogden, UT 84201-0027
- Retain a copy of the filed return for the association's records (and to provide to the public if requested).

Note that:

- The normal IRS three-year "statute of limitations" is triggered by the filing of a return. If the association does not file a return, the three-year period never starts, the statute never closes, and there is no limit on how far back the IRS can go in an audit situation.
- The annual information return is a good way to notify the IRS of any changes (such as an address) in the association.
- Filing the return gives the association a "paper trail". When a new president or association manager takes office, he/she will be able to tell at a glance that IRS filings are up to date.
- **If an organization fails to file a return for three consecutive years, it will lose its 501(c)(3) exemption.**

Item 2b
Form 990-T (Unrelated Business Income)

Used to report an association's unrelated business income.

Although associations are tax-exempt, an association can generate taxable income through the operation of a trade or business that is unrelated to the association's exempt purposes. The resulting tax is called Unrelated Business Income Tax (often referred to as UBIT). Examples of UBIT activities include the sale of T-shirts, pins, related bowling items and income from gaming activities.

There are exceptions to these UBIT rules (e.g., if the income was generated by volunteer workforce).

Therefore, it is strongly recommended that an association talk with an accountant or tax attorney experienced in non-profit law when dealing with unrelated business income. Additional information about the tax treatment of unrelated business taxable income can be found in IRS Publication 598.

Filing Considerations

- Associations must file IRS Form 990-T, if they receive gross income of $1,000 or more from business unrelated to the association's exempt purpose.
- The obligation to file Form 990-T is in addition to the obligation to file an annual information return (Form 990/990-EZ/990-N).
- Tax-exempt organizations must make quarterly payments of estimated tax on unrelated business income if it expects its tax to be $500 or greater for the year.
- File 990T by the 15th day of the fifth month following the close of the fiscal year. Since each association's fiscal year ends July 31, start after August 1, but file no later than December 15.
- The completed forms are to be sent to: IRS Ogden, UT 84201.

A tax-exempt organization's Form 990-T must be made available for public inspection.

Item 2c
Forms 941/944

Form 941 (Employer's Quarterly Federal Tax Return) and Form 944 (Employer's Annual Federal Tax Return) are the forms used by the association to report employment taxes withheld from association employees.

After the association files its first Form 941/944, the association must file a return each quarter (Form 941) or year (Form 944), even if there are no taxes to report. Continuing to file each quarter (Form 941) or year (Form 944) keeps the IRS informed that the association still has employees.

If the association files a Form 941/944, but eventually no longer has employees, a final Form 941/944 needs to be filed. Always maintain copies of the Form 941/944(s) for the association's records.

Filing Consideration

Form 941, "Employer's Quarterly Federal Tax Return," file:

1st quarter – January through March
2nd quarter – April through June
3rd quarter – July through September
4th quarter – October through December

Form 941 is due by the last day of the month following the end of the quarter. For example, wages paid during the first quarter (January through March) must be reported on Form 941 by April 30. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, the return may be filed on the next business day.

Form 944. associations with annual liability of $1,000 or less for Social Security, Medicare, and withheld federal income taxes are eligible to file Form 944 instead of Form 941. Unlike Form 941, which is filed quarterly, Form 944 is filed annually. An association should only file Form 944 if the IRS has contacted you to do so.

Form 944 is due January 31, following the tax season. For example, for payroll taxes through December 31, Form 944 must be filed by January 31.

Item 2d
Forms 1099-MISC & 1096

1099-MISC

Form 1099-MISC is used to report payments made during a trade or business to another person or business who is not an employee. The association must issue a 1099-MISC to a person or business who has received payments of $600 or more in the calendar year. For instance, if an individual receives a tournament prize of $500 from the general prize fund, and wins $100 in a side competition, he/she must be given a 1099-MISC.

Form 1096 (Only used when filing by paper)
Filing by Paper

If Form 1099-MISC is mailed to the IRS, Form 1096 "Annual Summary and Transmittal of U.S. Information Returns" must be included. Form 1096 reflects the totals from all the 1099-MISC forms that the association has issued.

Filing Electronically

You **Do NOT** need to file Form 1096 if you file your 1099 forms electronically or on magnetic media to the IRS.

Filing Consideration

- A Social Security Number must be provided to file a 1099-MISC. If none is available 28% must be withheld from payment to the individual.
- Form 1099-MISC must be provided to each income recipient by January 31.
- Form 1099-MISC must be submitted to the IRS if transmission is on paper or magnetic media. Form 1096 must accompany paper submissions.
- Form 1099-MISC must be submitted to the IRS if transmitting electronically.

Commonly Asked Questions – Item 2d, Forms 1099-MISC & 1096

2d/1 - If we do not give out a 1099 does that mean the person does not have to report the income?
No. All income must still be reported to the IRS.

2d/2 - We have a husband/wife who won $1500 in our tournament and have assured us they file jointly; can we give one 1099 for the two of them?
No. Even if they both won equally and file jointly, the IRS requires a 1099 for each person.

2d/3 - Our association gives our volunteers a small amount of money per event they work. Between tournament winnings and volunteer work, one was over $600. Does the volunteer money count?
Yes. All money paid to an individual, (Jan-Dec) are added together and if the whole amount is over $600, a 1099 must be given.

- *Example – if they earned $400 in tournament winnings and $300 as a volunteer, they should receive a 1099 form for $700.*

2d/4 - We have an individual who won $300 in all events from one tournament and in another tournament, he won $200 from team event and $300 in singles. Do we give him a 1099?
Yes, over the course of 12 months, this person is receiving $800 from the association. All winnings for the year (Jan-Dec) are added together and if someone has over $600 a 1099 must be given out.

2d/5 - When giving out a 1099, what should the association look at?

- *Different ways you give out money, i.e. brackets, prizes, volunteer help.*
- *Combination of all money earned between Jan-Dec.*
- *Tournament prize winnings. (This would include every tournament bowled and each event within the tournament.)*
- *Volunteer money given for helping at an event.*
- *Money earned while helping with lane inspections.*

2d/6 - What do we NOT take into consideration when giving out a 1099?

- *The person's willingness to accept a 1099.*
- *Donation given back, such as a donation back to the association to keep the funds under $600.*
- *Reimbursement of business or out of pocket expenses*

Item 2e
Form 1042-S

Used to report amounts paid to foreign persons (including persons presumed to be foreign) that are subject to income tax withholding, even if no amount is deducted and withheld from the payment because of a treaty or exception to taxation, or if any amount withheld was repaid to the payee. It is also used to report amounts withheld under Chapter 3 of the Internal Revenue Code. A foreign person is anyone not a US citizen or resident alien. This form is issued for all amounts paid to the foreign person during a calendar year. For instance, if an individual is determined to be a foreign person and receives a tournament prize of $100 from the general prize fund, and wins $30 in a side competition, he/she must be given a 1042-S. The gross amount reported would be $130 and if 30% is withheld from both prize payouts then the withholding of $39 would be report on the 1042-S form as well. If the foreign person has obtained a valid ITIN (International Tax ID Number) from the IRS, then withholding is not required from payments made to them throughout the year. If they do not have an ITIN issued from the IRS, then 30% must be withheld. A MUST is the individual must use his/her foreign address and not a US address.

Item 2f
Form W-2

Used by employers to report wages, tips, and other compensation paid to an employee. The form also reports the employee's income tax and Social Security taxes withheld and any advanced earned income credit payments.

Filing Consideration

- Form W-2 is provided by the employer to the employee and to the Social Security Administration (SSA).
- The employer (association) must furnish a copy of the W-2 to employees by January 31 of the year following the year of payment.
- The employer (association) must file the Form W-2 with the SSA by February 28 of the year following the year of payment.

Worker Classification

Association workers should either be classified as employees or independent contractors. The determination as to whether a worker is an employee or independent contractor will affect an association's withholding obligations (e.g., required to withhold taxes on employees but not independent contractors) and an association's reporting obligations (association employees will receive Form W-2 and independent contractors will receive Form 1099). Because the tax requirements are often simpler with respect to independent contractors, employers will often attempt to classify workers as independent contractors. Associations should be aware, however, that the misclassification of employees is one of the most common issues that IRS auditors raise with exempt organizations.

The determination as to whether a worker is an employee or independent contractor is complex but is essentially made by examining the right to control whether the employer has the ability to control how, when and where the person performs services. The three basic areas of control that determine worker classification are:

- Behavioral control
- Financial control
- Relationship of the parties

An employee is an individual who **performs services that are subject to the will and control of the association**, both what must be done and how it must be done. An association may allow employee discretion and freedom of action but if the association maintains the legal right to control both the method and the result of the services, then the worker should be classified as an employee.

It is important to note that worker classification is not based on how the worker is paid (e.g., wage versus salary), how often the worker is paid, or whether the person works part-time or full-time.

Association Payroll Requirements with Employees

All state and local associations are required to withhold Social Security, Medicare, and state and federal withholding taxes from employee wages if the employee earns $100 or more during a calendar year:

WAGES	FILING
$99.99 or less in a calendar year	Wages are not subject to withholding – no filing is required.
$100 or more in a calendar year	The association must pay its share from every dollar paid in wage or salary, and the association must file Form 941 in each quarter where any wages are paid (or Form 944 if requested by the IRS).

Employers must pay the employer's share of Social Security and Medicare taxes on the wages paid to employees. However, USBC associations are exempt from paying any Federal Unemployment Tax (FUTA).

Associations may be required to pay state unemployment tax and, where applicable, state withholding tax. State procedures vary; therefore, associations should contact their State Department of Labor, Social Security, or IRS office for details.

Local/city governments may require withholding as well. Associations should contact local tax authorities for details.

NOTE: In almost every case of non-reporting, the IRS assesses penalties and requires associations to pay back taxes and interest.

How Much to Withhold and Where to Send Withholdings

A tax-exempt organization generally must withhold federal income tax from its employees' wages. To figure how much to withhold from each wage payment, the tax-exempt organization should use the employee's Form W-4 and the methods described in:

- Publication 15, Employer's Tax Guide
- Publication 15-A, *Employer's Supplemental Tax Guide*

Secure a completed Form W-4, "Employee's Withholding Allowance Certificate," from each employee.

Review Publication 15, *Employer's Tax Guide*, and Publication 15-A, *Employer's Supplemental Tax Guide*, to determine the amount of withholding and for directions on depositing the withholding amounts and other employment taxes.

Other laws affecting Association Employees:

- **Worker's Compensation and State Unemployment Taxes**
  Associations must be aware of workers' compensation laws, covering workers injured on the job, as well as state unemployment laws. These laws vary from state-to-state. Contact the appropriate state government agencies for specific requirements.
- **Minimum Wage Requirements for Employees**
  Associations that pay employees are potentially subject to the federal and/or respective state's minimum wage requirements, which could vary depending upon whether the individual is a part-time or full-time employee. The minimum wage requirement is a federal and state requirement and always has been in effect. For more information regarding minimum wage regulations in your state, contact your state's Department of Labor.

Commonly Asked Questions – Item 2f, Form W-2

2f/1 - What is:

Volunteer	*A person who gives time and generally is not compensated financially. Such as: tournament manager, tournament worker, fund-raiser help*.
Contract employee	*Someone who is not an actual employee of the association but is contracted with the association to do work. Such as: fixes things, web designer, Media consultant, "some" tournament managers.*
Employee	*Selected or hired by the association. Positions such as association manager, assistants, office help.*

2f/2 - This seems very confusing. Is there an easy way to pay employees?
Yes, banks or credit unions and professional payroll companies can help you out. Shop around, if you have less than ten employees. Your local bank or credit union might be the simplest and most economical option.

Item 2g
W-2G Gaming Activities

Used to report gambling winnings and any federal income tax withheld on those winnings. The requirements for reporting and withholding depend on:

- Type of gambling,
- Amount of the gambling winnings; and
- Generally, the ratio of the winnings to the wager.

Click here for Instructions for Forms W-2G and 5754

One of the benefits of being part of USBC's group tax exemption is the ability to receive gaming licenses to conduct activities such as 50/50 raffles, bingo, pull-tabs, etc.

Before conducting gaming activities, the association must be aware of the reporting requirements involved because of partaking in such activities. The IRS mandates organizations conducting games of chance to maintain records of gross income, prize payouts, and disbursements to support the information documented in the Form 990 and 990-T.

There may be tax reporting requirements if an individual receives $600 or more in gambling winnings within the calendar year from association run events. Refer to Form W-2G and its instructions at IRS.gov

The association also must refer to state and local laws, whose guidelines may require additional record keeping and reporting. Also, the state and local laws may contain licensing requirements and expense limitations. The association should contact its respective State Gaming Commission or State Gaming Board to determine the appropriate permit/license required prior to conducting any gaming operations.

Item 3
Reimbursing Business Expenses

An association may reimburse actual business expenses incurred by association employees or directors without tax consequences to the employee or director if:

a. The expense is related to the business or purposes of the association; and
b. The employee/director submits evidence of such expense (receipts).

If an individual receives a reimbursement for more than such individual's out of pocket expenses, then the excess reimbursement is taxable income to the individual.

If an individual is not reimbursed for out-of pocket association expenses (or for less than 100% of such expenses), the individual may be able to claim the expenses as a donation to the association on his/her personal income tax return.

Commonly Asked Questions – Item 3, Reimbursing Business Expenses

3/1 - We pay expenses for going to the state and national Annual Meetings/Conventions. Would this be considered a reimbursable expense?

- *Yes, **IF** receipts are received and funds given do not exceed the amount on the receipts.*
- *No, **IF** a set amount is given to an individual, and no receipts received.*

3/2 - We give a stipend for attending the state and national Annual Meetings/Conventions, is this a reimbursable business expense or should we use a 1099?

- *Yes, **IF** giving a stipend a 1099 should be used.*
- *No, **IF** the money given is less than expenses incurred, **AND** you have receipts, you can consider this reimbursing a business expense.*