



National Federation of Republican Women

IRS and 527 Reporting & Record Keeping

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NATIONAL FEDERATION OF REPUBLICAN WOMEN

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**There's a
place for you
at our table.**

One of the basic responsibilities of the local club or state federation treasurer is the maintenance of the financial records. They are responsible for ensuring all deposits are made and recorded and for making authorized withdrawals from the accounts. The local club or state federation treasurer is responsible (along with the individual Boards) to ensure the internal control environment is established and operating effectively. They also issue meeting reports as to the balances on hand and activity to date. However, the treasurer needs to be aware of the following information regarding Internal Revenue Service (IRS) and Federal Election Commission (FEC) reporting and recordkeeping. These rules have changed substantially over the past few years and will continue to evolve. If you have any questions or concerns, please contact the NFRW or one of the agencies listed at the end of this section. The IRS form indicated herein can be located at www.irs.gov Forms and Publications.

Internal Revenue Code (IRC) Section 527 Organizations

The IRS provides for several types of tax-exempt groups, including public charities, trade associations, business leagues, and foundations. IRC section 527 defines yet another type of tax-exempt organization known as a political organization. This includes principal campaign committees, newsletter funds of elected officials and candidates, and separate segregated funds established by exempt organizations (such as a trade association) for political purposes. The most common type of IRC section 527 political organization is what is commonly referred to as a political action committee, or PAC. PACs are often organized to contribute directly to candidates for federal office and, as such, are required to register with the Federal Election Commission and report their receipts and disbursements. The amount an individual can contribute to this type of registered PAC is limited to \$5,000 per year, and corporate contributions are prohibited.

An organization that does not contribute to federal candidates, or that does not otherwise advocate the election or defeat of specific federal candidates, is also considered an IRC section 527 organization if it carries on “non-federal” political activities. Non-federal activities include issue advocacy, get-out-the vote drives, and other similar types of activities that do not advocate any specific candidate’s election or defeat. These IRC section 527 organizations are NOT required to register with the FEC, and there are no limits on the amount an individual may contribute to this type of organization. In addition, corporate contributions may be accepted and are also unlimited. Contributions, however, are not tax deductible by donors.

Nearly all association-related political organizations will fall under one of the classifications below.

- FEC political committees, state or local candidate committees, or state or local committees of a political party,
- Qualified state or local political organizations (NFRW, State FRWs, and Clubs are NOT a QSLPO – see definition later),
- Caucuses or associations of state or local officials, or
- **Any other political organization, including federal, state, and local political organizations*.**

***This is the category that the NFRW, State FRWs, and Clubs are in.**

Getting Started: IRS Form SS-4 - Application for Employer Identification Number (EIN)

All state federations and local clubs must file for a Federal Tax ID number known as the Employer Identification Number (EIN) using IRS Form SS-4. All political organizations (including section IRC section 527 organizations) must have their own EIN even if they do not have any employees. Due to the tax consequences, **do not** use your personal social security number. You may fill it out online and be granted a number immediately or simply fill out the IRS Form SS-4, sign it, and return it to the IRS. **Without such a form, a state federation or club will not be able to establish a checking account.** The form asks you why you want an EIN number and you should state for banking purposes. This number will be valid for the life of your organization. **At no time should the state federation or club use a social security number for the organization's business.**

A club, state federation, or ancillary group cannot use the NFRW tax ID number.

General Taxation Information

Generally, political organizations like NFRW clubs and federations are exempt from federal income tax for most purposes, but not on investment or business income or on any gain from the sale of an asset.

Contributions to the organization are not deductible by donors and this should be clearly communicated to all potential and actual donors in solicitations and acknowledgement letters and other correspondence.

Types of Club Income which are Non-Taxable

A club or federation does not have to apply to the IRS for exempt status as a political organization (unless it meets the reporting standards discussed under Political Organization Registration: IRS Form 8871 later) and qualifies for exemptions on the following types of income:

- A contribution of money or other property.
- Membership dues, fees, or assessments received from club members.
- Proceeds from a political fundraising or entertainment event.
- Proceeds from conducting bingo games and raffles (if bingo and raffles are not considered commercial activities in the state and does not violate local or state law). *Note – there may be state reporting or other requirements from these activities. Organizations should become familiar with these laws within their specific state or local jurisdiction.*
- Proceeds from the sale of political campaign materials.
- Proceeds received from sporadic political breakfasts, dinners, receptions, picnics, and dances.

General Taxation Information (continued)

Types of Club Income which are Non-Taxable (continued)

- Proceeds from the sale of political items such as memorabilia, bumper stickers, campaign buttons, posters, hats, shirts, stationery, jewelry, or cookbooks. (The sale must be closely related to another political activity, such as distribution of political literature or organization of voters, and cannot be in the regular course of a trade or business.)

What is Taxable Income?

Taxable income generally includes income that is not directly related to the organization's political activities and would include income in the regular course of trade or business. Examples of taxable income are interest, dividends, rents, and capital gains. Therefore, some club's income may be taxable, and if so, a club would be taxed on its net non-exempt income as if it were a corporation. However, a club is not subject to tax and need not file a return unless its taxable income exceeds its allowable deductions by more than the \$100 specific deduction. Refer to IRS Form 1120-POL discussion later for more information.

Political organizations must report any gain on property contributed to it and later sold. Such gain (which is the difference between the sale proceeds received and the fair market value on the date the property was contributed) is considered taxable income.

Please check with your state or local tax authority as to additional regulations. Most states follow federal guidelines in regulating income tax. Generally, where there is a federal tax liability, there is also a state income tax liability.

IRC Section 527 Organization Reporting

Beginning July 1, 2000, political committees that are **NOT** required to register with the FEC (such as NFRW, State FRWs, and Clubs), but are otherwise considered IRC section 527 organizations are required to register with the Internal Revenue Service. Existing IRC section 527 organizations were required to register by July 31, 2000. An IRC section 527 organization organized after July 1, 2000 has 10 days to register. If an existing organization fails to register by the July 31 deadline, it will be taxed on its income that would otherwise be exempt. Another reporting form that most political organizations must file is an Exempt Organization Return (IRS Form 990). In addition, the filing requirements are expanded for IRS Form 1120-POL, the U.S. Income Tax Return for Certain Political Organizations. See specific reporting thresholds below for each form as many State FRWs and Clubs will be exempt from some or all of the reporting.

Political Organization Registration: IRS Form 8871 - Political Organization Notice of IRC section 527 Status

In general, any political organization that is not registered with the FEC is required to register with the IRS, UNLESS the organization does not expect to have annual gross receipts of \$25,000. At any time during the life of the organization, if gross receipts are expected to exceed \$25,000, the organization must register using IRS Form 8871 within 30 days and thereafter, will have to file the required disclosure form (IRS Form 8872). Newly formed organizations must file **within 24 hours** of the date on which the organization is established. In order to register, an organization must file IRS Form 8871 with the IRS electronically on the IRS' website. This is a one-time filing to communicate to the IRS the organization is a political organization that will need to file regular reporting of its activities (see IRS Form 8872 below). Should the organization terminate, it will also use IRS Form 8871 to communicate that.

The penalties for failure to file timely IRS Form 8871 are substantial and should be avoided. The organization will not be treated as an exempt organization until the form is filed, and therefore must report any contributions received as taxable income. In addition, all political expenditures would be nondeductible. This could result in the assessment of penalties and interest. The IRS will make IRS Form 8871 available for public inspection, as must the organization itself during regular business hours.

On-Going Disclosure of Activities: IRS Form 8872 - Political Organization Report of Contributions and Expenditures

Every IRC section 527 organization that accepts a contribution or makes a political expenditure must file IRS Form 8872, except for an organization that is not required to file IRS Form 8871 (see above), a state or local committee of a political party, or a political committee of a state or local candidate. The IRS will make IRS Form 8872 available for public inspection, as must the organization itself during regular business hours.

At certain times during the year, disclosure reports will have to be filed with the IRS on Form 8872. The report asks for information related to the organization's receipts and disbursements. Specifically, the organization must disclose the name, address, occupation, and employer of anyone who contributes at least \$200 to the organization during the reporting period. In addition, the organization must also disclose the name, address, occupation, and employer (if applicable) of any organization or individual who was paid more than \$500 during the reporting period. No explanation of what the expenditure was for is required. The organization must also disclose the aggregate amount of contributions less than \$200 and the aggregate amount of payments less than \$500.

Any IRS Form 8872 must be filed electronically if the filing organization has or expects to have contributions OR expenditures of more than \$50,000 during the calendar year. If not qualified as above, IRS Form 8872 may be mailed.

On-Going Disclosure of Activities: IRS Form 8872 - Political Organization Report of Contributions and Expenditures (continued)

During non-election years (i.e., when there is no federal election), an organization may choose to file its disclosure reports either monthly or semiannually. During an election year, additional reports may be required both prior to and after the general election. For other calendar years, the organization can choose between semiannual or monthly reporting.

Annual Information Reporting: IRS Form 990 or 990EZ - Return of Organization Exempt From Tax

Tax-exempt political organizations whose annual gross receipts are \$25,000 or more must file Form 990 or 990EZ, unless excepted. Any organization excepted from the requirements to file an IRS Form 8871 and any political organization that is a caucus or association of state or local officials are excepted from the IRS Form 990 filing requirement. IRS Form 990 is due the 15th day of the fifth month after the end of the organization's fiscal year (i.e. May 15 for December 31 fiscal year end organizations). There are extensions available. If you have gross receipts of \$200,000 or less and \$500,000 or less of assets, you may file IRS Form 990-EZ instead of an IRS Form 990. If \$5,000 or more is received from any one contributor, an IRS Form 990 Schedule B must be included.

The penalty for failure to file IRS Form 990, or a failure to include required information, is significant and is billed per day.

Taxable Income Reporting and Tax Payment: IRS Form 1120-POL - U.S. Income Tax Return for Certain Political Organizations

Political organizations are only required to file IRS Form 1120-POL when taxable income is greater than \$100, however, if the organization has gross income, it is recommended to file annually to begin the statute of limitations in case of future audit.

For political organizations, taxable income is gross unrelated income less direct costs of generating that income. The tax for organizations such as NFRW, the state FRWs, and Clubs is at the general corporate rate (currently 35%).

IRS Form 1120-POL is due the 15th day of the third month after the end of the organization's fiscal year (i.e. March 15 for December 31 fiscal year end organizations). Extensions are available, however, estimated tax payments must be made by the initial due date.

Most states and some localities also require a corporate income tax return on this income and taxes may have to be paid. You should become aware of these requirements.

The penalties for failure to file, or a failure to include required information, are significant and interest will be charged on unremitted taxes due.

Public Disclosure Requirements

Tax-exempt IRC section 527 organizations must make their IRS Forms 8871, 8872, and 990 (or 990-EZ) publicly available for inspection and copying at their principal place of business or on the organization's website. The IRS also posts IRS Form 8871 and IRS Form 8872 on its web site at www.irs.gov/polorgs.

When Do You File with the IRS?

IRS Form	When Filed	Exceptions to Filing requirement
8871	Within 24 hours of establishment or within 30 days of any material change, including termination	<ul style="list-style-type: none"> • Organization that does not seek tax-exemption; • Political committee required to report to the FEC; • Campaign committee of state and local candidates; • State or local committee of political parties; or • Organizations that reasonably expect annual gross receipts to always be less than \$25,000.
8872	At organization's option, quarterly, semiannually, or monthly, on same basis for entire calendar year; additional filing requirements in even numbered election years	<ul style="list-style-type: none"> • Any organization excepted from IRS Form 8871 filing requirement (see above); or • Qualified state or local political organizations (QSLPO)* that have state filing requirements in lieu of IRS Form 8872.
1120-POL	Due the 15 th day of the 3rd month after the close of the taxable year	<ul style="list-style-type: none"> • Political organization with no taxable income after taking the \$100 specific deduction.
990 or 990EZ	Due the 15 th day of the 5th month after the close of the taxable year	<ul style="list-style-type: none"> • Any organization excepted from IRS Form 8871 filing requirement (see above); • Caucus or association of state or local officials; or • QSLPO*'s that have annual gross receipts of less than \$100,000.

* A state or local organization may be a QSLPO, if it meets the following criteria:

- All of its political activities relate solely to state or local public office (or office in a state or local political organization);
- It is subject to state law that requires it to report (and it does report) to a state agency information about contributions and expenditures that is similar to the information that the organization would otherwise be required to report to the IRS;
- The state agency and the organization make the reports publicly available; and
- No Federal candidate or office holder controls it or materially participates in its direction, solicits contributions for it, or directs any of its disbursements.

Other Tax and Compliance Matters to be Aware of

Are Payments to Federation Members for Political Work Taxable?

While this doesn't generally apply to NFRW it is good to note:

Political workers must report on their tax returns any compensation they receive.

Technically speaking, even reimbursements for personal expenses, such as travel, are reportable income. Wages paid to political employees (club or federation staff members) are subject to withholding of income tax, Social Security, and FICA and FUTA taxes. Employers must provide such employees with IRS Form W-2 by January 31st of each year. Organizations that hire independent contractors and attorneys must follow the reporting requirements and file IRS Forms 1096 and 1099-MISC, if they are required.

States and Localities

In addition to these federal tax requirements, a political organization may have various employer obligations at the local or state level. Therefore, clubs and state federations should become familiar with such laws in your area. Examples include real estate and personal property taxes, sales taxes, and business licenses. Typically, political organizations are not exempt from these taxes and reporting.

Employment, Contractor, and Gaming Reporting

As discussed previously, the organization may have reporting requirements for employees (through IRS Forms W-2 and W-3) and contractors (through IRS Forms 1099-MISC and 1096). In addition, all the federal, state, and local laws around employment verification should be understood and followed. If the organization has gaming activities (raffles, bingos, etc) where prizes are awarded to winners, the organization may have reporting requirements in IRS Form W-2G.

The Difference between Non-Profit and Tax-Exempt Status

There is much confusion about this difference and what it means for our tax status.

- Non-profit status refers to incorporation status under state law.
- Tax-exempt status refers to Federal income tax exemption under the IRC.

As a political organization, our organizations are political organizations that are tax exempt only on related activities (*the only exception is the National Pathfinders Fund, which is incorporated and is a 501(c)(3) public charity and donations to National Pathfinders Fund may be tax deductible to the donor's dependent upon their specific tax situation*).

We have elected to run our organization as non-profit, but this is not a legal or IRS status. We do not qualify for non-profit mail privileges or deductions on personal income tax for contributions.

Recordkeeping Requirements

Political organizations, like all organizations, are required to maintain financial records to support the amounts reported in filings. The requirements vary by form and are typically based on due dates and filing dates. In addition, states have their own requirements. Some items are required to be maintained in perpetuity, for example the IRS Form 8871. A good rule of thumb is to maintain data for years filed timely for seven years, however, in some cases more or less would be permissible.

Helpful Contacts for a Federation Treasurer

For NFRW, state FRW, and Club reporting:

Internal Revenue Service

www.irs.gov
Tax Forms

For PAC reporting:

Federal Election Commission

999 E Street NW #910
Washington, D.C. 20463
800-424-9530
www.fec.gov
Rules for PACs/donations

For General or Specific Questions about NFRW, state FRWs, and Clubs:

NFRW

Finance Director
124 N. Alfred St.
Alexandria, VA 22314
finance@nfrw.org or
mail@nfrw.org

Guidelines for Club Involvement in Federal Races

As local clubs work to support Republican candidates, club leaders must ensure that their club's activities comply with Federal and state campaign finance laws. Laws vary significantly among the states, so club leaders should seek specific advice about complying with the laws of the state in which their clubs are organized. Requirements of Federal law are described here—the Federal Election Campaign Act of 1971 (FECA) is the principal statute; FECA was significantly amended by the Bipartisan Campaign Reform Act (BCRA) in 2002.

The laws are often complicated and compliance can be a challenge. Given the penalties that can be assessed by both Federal and state campaign finance agencies, club leaders should seek advice before making a contribution to a candidate or planning a program or activity. When it comes to campaign finance, it's always better to ask permission than to seek forgiveness.

What every club can do.

There are two ways that every club can support Federal candidates—making a limited contribution and communicating with the club's members—without running afoul of Federal law.

Making a limited contribution.

A club may contribute up to \$1,000 to all Federal candidates in a calendar year so long as the club can demonstrate through a reasonable accounting method that, on the date of the contribution, the club treasury had at least the amount it contributed in federally-permissible funds. Federally-permissible funds are funds given by individuals personally, not corporations or other entities. One such reasonable accounting method is last in, first out—if the last \$1,000 deposited in the club treasury came from individual donors, then the club can contribute up to \$1,000. Another method is to maintain two bank accounts—one with funds from individuals and a second with funds from other sources; anything in the first account would be federally-permissible. Other accounting methods may be used, so long as the club can certify to the campaign receiving the contribution that it comes from Federally-permissible funds.

Note that this is a single limit to all Federal candidates combined, so, if a club contributed \$1,000 to a candidate for U.S. House, it could not also contribute to a candidate for U.S. Senate. A club could contribute \$500 each to a candidate for U.S. House and a candidate for U.S. Senate, aggregating to \$1,000, but could not then also contribute to the candidate for President.

If a club contributed more than \$1,000 to all Federal candidates in a calendar year, it would be required to register with the Federal Election Commission and file regular reports of receipts and disbursements.

Communicating with the club's members.

Club leaders may always communicate with club members about Federal elections. Candidates may also be invited to communicate with club members, including soliciting contributions and volunteer service from the members. However, these communications must be limited only to club members. Communicating with the general public or anyone outside of the club's membership is subject to restrictions.

Featuring plans for the club to participate in Get Out the Vote (GOTV) activity in the club's newsletter, inviting a candidate to a club meeting to give an update on his or her campaign, and sending an e-mail update to club members on upcoming candidate events are all acceptable communications with club members.

Encouraging the club's members to volunteer their services in support of a candidate or a party committee can be the most effective way to support Republican candidates. Volunteer services are not considered contributions, so club members can volunteer without limit. Any expenditures made by the campaign or a party committee would be reported by them, but the club would not be required to report anything. A Republican Women's Night at the party phone bank or a Republican Women's mail stuffing session at a campaign headquarters are acceptable ways to promote such volunteer service.

Other options for clubs

There are other strategies clubs can consider for supporting Republican candidates.

- Encourage members to make direct contributions to campaign and party committees. As long as such contributions don't pass through the club treasury, there's no reporting issue for the club.
- Spend money on support activities instead of making a contribution. The \$1,000 limit on support for all Federal candidates need not be made as a contribution. For example, federally-permissible funds could be used to buy bumper stickers or host a public GOTV rally. The club would be obligated to notify the campaign that it had made an "in-kind" contribution if it spent money on such activities; only the campaign would have to report the contribution.
- Contribute to party committees. Party committees have a special status in campaign finance law. A party committee may engage in some activities without making a contribution that would be considered a contribution if carried on by other organizations, such as a local club. For example, party committees may produce sample ballots or reproduce bumper stickers or yard signs for distribution by volunteers without the expenditures counting as a contribution.
- A club could also establish its own federally-registered PAC, allowing it to raise and contribute more than \$1,000 to all Federal candidates combined. A PAC would have a separate limit for each Federal candidate. When a PAC is first established, it has the same contribution limit as an individual (\$2,700 per candidate per election in 2016). Once it meets the requirements to become a multi-candidate PAC, it may contribute up to \$5,000 per candidate per election.

With care, local clubs can provide critical support to Republican candidates within the strictures of Federal and state laws. Club leaders should always seek advice before making contributions or expending funds on activities in support of Federal candidates. Likewise, leaders should consult with experts on state campaign finance laws to ensure compliance.

The Federal Election Commission's Information Division can answer questions about Federal law anonymously. The Information Division can be reached at (800) 424-9530, by selecting option 6, or directly at (202) 694-1100. Some states have a similar service.