

From the Aprovecho Archives:

circa 1980

THE MEANING OF TAX EXEMPTION

Under section 501 (C)(3) of the U.S. Internal Revenue Code of 1954 APROVECHO is exempt from Federal Income Tax as a publicly supported 'charity'. Under an 'advance ruling' the IRS has given us 3 years to prove we do indeed fulfill the requirements of both a publicly supported and a tax exempt organization. A copy of APROVECHO's application for exemption can be found in the TAX STATUS FILE under Aprovecho Business.

BENEFITS

- No federal income tax to pay on any income related to our exempt purpose.
- We can get donations much more easily because donors can deduct them.
- Many foundations give grants only to Tax Exempt organizations.
- Fall mostly into the realm of increased accounting work, i.e.
 - * careful accounting
 - * careful money handling
- Also means we have to put extra effort into fundraising to obtain a 'broad base' of support (in order to remain publicly supported).
- We have to stay out of politics pretty much.

Publicly Supported Organizations vs. Private Foundations

The IRS has a few formulas to determine whether an organization is publicly supported. Basically this means that the bulk of our income must come from the 'general public' or its representatives (government, other charities). This means we have to be careful to keep tabs on how much of our income comes from one source and we must do a lot of donation / grant soliciting.

This extra work involved in fundraising and account managing has some payoffs. Without going into tons of details (in part because I don't know at least a ton of them), publicly supported organizations have less reporting to do to the IRS than do private foundations. Also, publicly supported organizations do not have to worry as much about distribution of assets (for exempt purposes) at the end of their fiscal year. Private foundations have a bunch of rules about 'self dealing' (this needs further investigation). If the IRS decides APROVECHO doesn't qualify as a publicly supported organization and they still agree that our purposes (i.e. reasons to live are tax exempt, they will probably call us a Private Foundation).

There are many questions to be answered regarding Tax Exempt Status. Terms such as 'related business income' and 'unrelated business income' have to be clarified in our case. If in the future APROVECHO is in the position to 'employ' people we have to decide whether we will pay F. I. C. A. We have to find out about income from foreign sources, consultancies, subsistence contracts, donations with strings and myriad other things. Also, our accounting system needs to be much better organized.

Margaret Thomas and Gina Amalfitano have found a bookkeeper / tax preparer, Linda Brown, who will help us set up our books, and we are looking for a lawyer to help with tax questions.

More later.

Gina Amalfitano