



# FINANCIAL COMPLIANCE FOR CRIME STOPPERS

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# AGENDA: THE 7 QUESTIONS TO ASK IN MAINTAINING YOUR TAX-EXEMPT STATUS

1. Does our organization need to file an annual return?
2. What form do we use?
3. When is our annual return due date?
4. Does Sarbanes-Oxley apply to my organization?
5. What does the IRS expect from our fundraising activities?
6. What disclosures are we required to make?
7. What activities may jeopardize our tax-exempt status?



# 1. DOES OUR ORGANIZATION NEED TO FILE A RETURN?



# WHO NEEDS TO FILE?

- Except for churches and certain church affiliated organizations, the majority of tax-exempt organizations, including Crime Stoppers programs who are organized under the charitable 501(c)(3) status, are required to file annual returns
- These returns are referred to as the tax-exempt annual reporting Form 990 series
- Significant consequences will be assessed for late filing or absence of filing, which will be discussed later
- So, the answer is:
  - ALL CRIME STOPPERS ORGANIZATIONS NEED TO FILE!

# WHO NEEDS TO FILE? (CONT'D)

- Does our organization need to file a Form 990-T?
- This relates to Unrelated Business Income (UBI). How does a charitable organization determine whether this income is taxable?
- Three tests help determine whether UBI is generated:
  - Is the activity a trade or business?
  - Is it regularly carried on?
  - Is it substantially unrelated to the exempt purpose of the organization?
- If the answer to all three questions above is yes, the activity may be generating taxable unrelated business income
- Example

# UBI TRAINING EXAMPLE

- Facts:
  - Simpleton Crime Stoppers decides to operate a used bookstore to generate funds for the organization.
  - The organization opens up a storefront to undertake these operations
  - The funds generated from the used bookstore offset the operational cost and rewards fun for the Crime Stoppers organization
- Question: Is this revenue-generating operation considered unrelated business income or part of the organization's exempt status?
- Answer: This would be considered UBI since this is an ongoing trade or business and is regularly carried on. Despite the fact the funds are provided to undertake the exempt purpose of the organization, selling books is not specifically related to the exempt purpose of operating Crime Stoppers
- A Form 990-T would be required in this situation

## 2. WHAT FORM DO WE USE?



IF THE IRS MADE A GPS...

...PROCEED TO THE INTERSECTION  
FOLLOWING SCHEDULE C (SECTION 4-6)  
THEN TURN RIGHT IF THE NUMBER OF  
PASSENGERS IN YOUR VEHICLE  
[FORM B22] IS GREATER THAN THE  
NUMBER OF CUP-HOLDERS (LINE 15)  
CURRENTLY IN USE...

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## Which forms do exempt organizations file?

Most tax-exempt organizations are required to file an annual return. Which form an organization must file generally depends on its financial activity, as indicated in the chart below.

<i>Status</i>	<i>Form to File</i>
Gross receipts normally $\leq$ \$50,000 <b>Note:</b> Organizations eligible to file the <i>e-Postcard</i> may choose to file a full return	<a href="#"><u>990-N</u></a>
Gross receipts $<$ \$200,000, and Total assets $<$ \$500,000	<a href="#"><u>990-EZ</u></a> or <a href="#"><u>990</u></a>
Gross receipts $\geq$ \$200,000, or Total assets $\geq$ \$500,000	<a href="#"><u>990</u></a>
Private foundation - regardless of financial status	<a href="#"><u>990-PF</u></a>

# CHANGES TO FORM 990-EZ

- IRS has offered some assistance to Form 990-EZ filers
- The form now offers 29 help icons:
  - Help icons are identified with a ‘?’ encapsulated in blue
  - Icons may also provide links to additional helpful information available on IRS.GOV
  - This may assist in avoiding common mistakes
- [Form 990-EZ](#)

# 3. WHEN IS OUR ANNUAL RETURN DUE DATE?



# ANNUAL RETURN DUE DATE

- Form 990, Form 990-EZ, Form 990 T & Form 990-N is due on the 15<sup>th</sup> of the fifth month following fiscal year end
- NEW BEGINNING THIS YEAR!
  - Form 8868 updated to provide for automatic six-month extension for Form 990, Form 990-EZ & 990T
  - Form 8868 Application for Automatic Extension must be filed on or before original due date
- No Extension allowed for Form 990-N
  - However, there is no penalty for late filing
- So when is your return due?

### Return Due Dates for Exempt Organizations: Annual Return

Use the table below to find your due date of annual returns (Form 990, 990 EZ, 990-PF) that a tax exempt organization must file.

<b>Ending date of tax year</b>	<b>Initial return due date</b>	<b>Auto 6-month extension due date</b>
December 31	May 15	November 15
November 30	April 15	October 15
October 31	March 15	September 15
September 30	February 15	August 15
August 31	January 15	July 15
July 31	December 15	June 15
June 30	November 15	May 15
May 31	October 15	April 15
April 30	September 15	March 15
March 31	August 15	February 15
February 28/29	July 15	January 15
January 31	June 15	December 15

# WHAT HAPPENS IF WE FILE LATE OR DON'T FILE?

- Internal Revenue Service will impose a late penalty of:
  - Organizations with less than \$1 million in gross receipts = \$20 per day up to \$10,000, or a 5% of the organizations gross receipts, whichever is less.
  - Organizations with more than \$1 million in gross receipts = \$100 per day, up to a maximum of \$50,000.
- Internal Revenue Service will revoke tax-exempt certification if no annual return is submitted for three consecutive years on the date that the third annual return is due
- What impact does this have?
  - For any excess revenues over expenses, corporate income taxes may be due
  - Any other state or federal tax breaks for tax-exempt organizations would no longer be applicable, i.e. state sales taxes
  - Organization may no longer hold itself out as a charitable organization and receive tax deductible donations
  - Publicity that may arise within the community on loss of tax-exempt status

# NASHVILLE CRIME STOPPERS

- Example of what may happen when IRS pulls exempt status
- [Nashville Crime Stoppers](#)

# 4. DOES SARBANES-OXLEY APPLY TO MY ORGANIZATION?





# WHAT IS SARBANES- OXLEY

- Enacted as the American Competitiveness and Corporate Accountability Act of 2002 and focused primarily on the for-profit corporate sector
  - Remember Enron corporate accounting scandal?
- Three provisions of the Sarbanes-Oxley Act apply to all corporations, including tax-exempt, and Crime Stoppers organizations need to understand and comply to these provisions:
  - Whistleblower Protection
  - Document Destruction
  - Conflict of Interest
- Required disclosure on Form 990, Part VI Governance, Management and Disclosures, Section B Policies

# WHISTLE BLOWER PROTECTION

- Protection for whistle blowers
  - Protect against retaliation
  - Criminal actions taken towards any retaliation
- Recommendations:
  - Organizations must eliminate careless and irresponsible accounting practices focusing on weak internal control processes
  - Develop, adopt and disclose a formal process to deal with complaints and prevent retaliation
  - Take any complaints seriously, investigate the situation and fix any problems justifying corrections
- CSUSA has a whistle blower policy and located in the members only section of the website that may be replicated

THE  
INVESTMENT  
FIRM  
HOUSE  
LEAGUE

Facebook.com/RhymesWithOrange Dist. by King Features



EVEN HERE,  
WE CAN'T GET  
AWAY FROM  
WHISTLEBLOWERS.

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# DOCUMENT DESTRUCTION

- SOX makes it a crime to alter, cover up, falsify or destroy any document preventing its use in official proceedings
- Need to maintain appropriate records about operations, including financial records, significant contracts, employment files and fundraising obligations
- Recommendations:
  - Develop a written policy mandating document retention and periodic destruction policy which also limits accidental or innocent destruction
  - Policy should include guidelines for handling electronic files
- CSUSA has a document destruction policy and located in the members only section of the website that may be replicated

# CONFLICT OF INTEREST

- Private inurement, excessive personal benefit and self-dealing all cause serious penalties for any tax-exempt organization. SOX limits these type transactions
  - A violation may place 'intermediate sanctions' by the IRS against an organization, which imposes significant fines and penalties on the organization and the individual receiving inappropriate benefits.
- Recommendations:
  - Develop an organization conflict of interest policy with disclosure, which should be enforced without fail
  - Although not common in Crime get stoppers organizations, but loans to executive directors or others should be prohibited
  - 'Self-dealing' practices should be at disclosed in the policy.
- CSUSA has a conflict of interest policy and located in the members only section of the website that may be replicated

# 5. WHAT DOES THE IRS EXPECT FROM OUR FUNDRAISING ACTIVITIES?



# QUID PRO QUO DONATION DISCLOSURES

- What is a quid pro quo donation?
  - Something for something. A donor makes a contribution to an organization and the donor receives a good or service in return for the donation.
- What is the issue?
  - IRS doesn't want the donor to claim the entire amount of contribution if it received an offsetting amount of a good or service.
  - Example: Donor gives \$100, however, receives a \$40 concert ticket from the charitable organization to induce the donation.
- Example of an extemporaneous donor letter:
  - Thank you for your \$100 donation to Crime Stoppers on 7/14/2016. In exchange for your contribution, we provided a concert ticket worth an estimated fair market value of \$40. Therefore, for federal income tax purposes, your contribution deduction is limited to \$60.

# DONATION DISCLOSURES FOR \$250 OR MORE

- Is a donor disclosure required for donations?
  - For IRS purposes, a business or individual can claim a donation on their tax return only if they have documentation from the charity regarding the specifics of the donation.
  - The extemporaneous correspondence must include the name of the organization, date of the contribution and the cash contribution amount or description of any non-cash contributions.
  - Declare in a statement that no goods or services were provided by the organization in return for the contribution
- Example of an acknowledgment letter:
  - Thank you for your cash contribution of \$300 that Crime Stoppers received on 6/25/2016. No goods or services were provided in exchange for your contribution.



# BE AWARE OF IRS SPONSORSHIP RESTRICTIONS

- Sponsorships are facing additional IRS scrutiny
- IRS definition of corporate sponsorship
  - Financial support by an outside party, usually a corporation, for the good of the non-profit organization. It is distinguished from a charitable contribution in that sponsor is typically motivated by a desire to receive public acknowledgement in exchange for its support.
- Non-profit receives corporate sponsorship is 'tax-free' if what is given corporate sponsor in return is an acknowledgement of thanks.
  - Hang a banner, conference program thank you or acknowledgement at podium.
  - Include: name, logo, address, telephone and products.
- Two important prohibitions
  - Non-profit cannot make a qualitative judgement on corporate sponsors products or services
  - Non-profit cannot ask its members or public to buy the products or services
    - Simple statement, 'Please patronize our sponsors' may jeopardize sponsorship

Dear IRS,



I am writing  
to you to cancel  
my subscription.



Please remove my  
name from your  
mailing list.



# DO YOU CONDUCT GAMING AS A FUNDRAISING ACTIVITY?

- One of the most common and successful methods of producing sources of income for charities were gaming fundraising events
- Is gaming furthering your tax exempt purpose?
  - Remember the 3 tests UBI reporting. If it is not an ongoing business activity, it will not be treated as UBI
  - Also, ensure gaming doesn't become a substantial part of the organizations activities
  - Ensure that the gaming meets one of the UBI exceptions (type of gaming allowed)
- What about state gaming regulations?
  - Each state has its own regulatory statutes regarding gaming. Certain licenses must be acquired and reporting requirements maintained.
  - Check your state statutes in case any specific excise taxes must be paid
  - Some states require games to be conducted by volunteers

# DO YOU CONDUCT GAMING AS A FUNDRAISING ACTIVITY – CONT'D

- What about reporting requirements?
  - Similar to a Form 1099 process, winnings of \$600 or more, after considering the wager, must be reported to the IRS and individual on Form W2-G
  - Copy A of the W2-G is submitted to the IRS using Transmittal Form 1096
  - See Publication 3079 for additional details
- Does the organization need to take any withholding?
  - When the net proceeds exceed \$5000, the regular withholding rate is 25%
  - This withholding will be placed on the Form W2-G, and transmitted to the IRS on Form 945
  - Withholdings are not required from traditional bingo, keno, slot machines or poker tournaments, however, net proceeds in winnings still need to be reported.
- Penalties and interest may be charged to the charitable organization if reporting requirements are met

# 6. WHAT DISCLOSURES ARE WE REQUIRED TO MAKE?



# PUBLIC INSPECTION RULES

- In return for being tax-exempt and receiving tax-deductible contributions and other favorable tax advantages (sales taxes, property taxes) savings, the IRS, through Congress, requires charitable 501(c)(3) organizations to disclose certain information about their organization to the public
- Requires the organization share the following documents upon a public request:
  - Annual Returns for three years after the due date. Includes the returns from Form 990 series
  - All Form 990 schedules (except donation portion of Schedule B) along with attachments and any other supporting documents in the annual return
  - Application for exemption Form 1023
  - Determination Letter issued by the IRS identifying the tax-exempt status

# TIMELINESS AND COPIES

- If a request comes in, when do I need to reply?
  - Usually the day a request is made for the documentation. However, many Crime Stoppers organizations don't have an office or regular hours, so the requested information should be made available within two weeks at the latest
- Do we need to provide copies?
  - Yes, whether the request is made in person or in writing. The organization can charge a reasonable fee to cover the cost of the copies.
  - An easier way to accomplish this? Post this information on your website and just refer the requester to your website location.

# WHAT IF WE DON'T COMPLY?

- This may have serious financial implications!
  - Penalties of \$20 for each day of noncompliance up to a maximum of \$10,000 if the organization doesn't comply
  - If failure to comply was deemed willful by an employee or officer, they could face an individual penalty of \$5000 per return or application.





# 7. WHAT ACTIVITIES MAY JEOPARDIZE OUR TAX-EXEMPT STATUS



# TO REMAIN IN COMPLIANCE...

- Absolutely refrain from participating in the political campaigns of candidates for office
- Restrict lobbying activities to an insubstantial part of its total activities
- Must not operate for the primary purpose of conducting a trade or business that is not related to the exempt purpose
- May not have purposes or activities that are illegal or violate fundamental public policy
- Must satisfy annual filing requirements

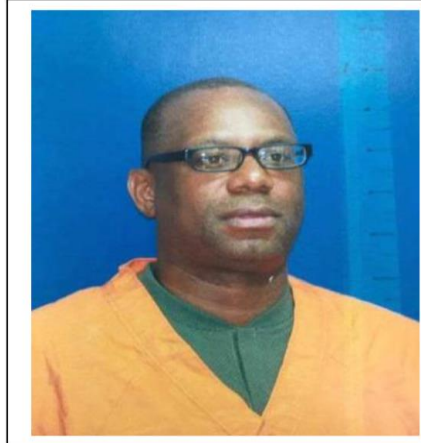
# AND REMEMBER INUREMENT ISSUES

- Ensure that its earnings do not inure to the benefit of any private shareholder or individual
- Must not operate for the benefit of private interests such as those of its founder, the founder's family or persons controlled by such interest
- What is inurement?
  - When the funds or other assets of a tax-exempt organization are not used or are diverted from the primary purpose of the organization. No one should enrich themselves, such as insiders or founders, thereby detracting from the exempt purposes
- If not compliant with political campaigning, lobbying or inurement issues, intermediate sanctions, financial penalties and/or loss of tax-exempt status may occur

# AND REMEMBER INTERNAL CONTROL ISSUES

## Crime Stoppers official accused of embezzling money for Las Vegas fraternity trip

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A Crime Stoppers official has been accused of embezzling money to take a round-trip service to Las Vegas to attend a national fraternity convention in Las Vegas.

Elijah Wilson, former coordinator of the North Central Mississippi Crime Stoppers, has been indicted on two counts of embezzlement by a Marshall County Grand Jury, according to state Auditor Stacey Pickering.

In addition to the Las Vegas trip, Wilson, 48, is accused of attending a Crime Stoppers conference in January of 2016, and received a travel advancement from the Town of Holly Springs, as well as reimbursement from NCMCS for the same trip.

"This case is egregious not just because of the embezzlement, but because a law enforcement official stole from the public he was sworn to serve," Pickering.

A formal demand totaling \$15,673.28 was served to Wilson, which included the embezzled funds, interest and costs.

"The illegal use of Crime Stopper money could have very well impeded the arrest and prosecution of other criminals," Public Safety Commissioner Marshall Fisher said. "We gladly work with our law enforcement partners on the local, state and federal level to fully prosecute individuals who abuse public money."

In May 2017, Wilson retired after having been employed by Holly Springs Police Department since 2000 and serving as coordinator of North Central Mississippi Crime Stoppers since 2006.

# SUMMARY: THE MAGNIFICENT 7 OF MAINTAINING YOUR TAX EXEMPT STATUS

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# QUESTIONS



# Paragon



# Solutions

*Serving small and mid-sized tax exempt organizations*  
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# MAINTAINING YOUR CRIME STOPPERS TAX EXEMPT STATUS



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