

Frequently Asked Questions Tax Exempt Status of 4-H

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1. Is 4-H tax exempt?

The 4-H and Youth Development program is exempt from FEDERAL income tax. Tax exemption does not reference state sales tax. 4-H groups must pay state sales tax whenever anything is purchased that would normally be taxed under Texas sales tax regulations. Specifically, 4-H clubs are exempt from Federal Income Tax under section 101 (6) of the IRS Code of 1939, which corresponds to section 501 (c) of the 1986 code, which we still operate under today.

2. What is a 501 (c) 3 ?

Most people in society acquaint a 501 (c) 3 with a not-for profit, fund raising organization. This element is definitely addressed within section 501 (c) 3 of the IRS tax code. However, there are MULTIPLE elements of section 501 (c) 3. Section 501 (c) 3 of the IRS tax code is over 76 pages long - it covers MANY, MANY elements of the tax code. One item covered is non-profit organizations which are exempt from federal income tax. 4-H falls under this section of the tax code. We ARE NOT however, a not-for-profit, fund raising organization - we are RECIPIENTS of these dollars. 4-H falls under the classification of "other than private foundations" in the 501 (c) 3 tax code descriptions. So, if someone references 4-H as being a 501 (c) 3, it should be under the element of being federally tax exempt - not as a non-profit fund raising group.

3. Does Texas 4-H have a not-for-profit fund raising organization?

Yes. The Texas 4-H Youth Development Foundation, was created over 40 years ago. The Texas 4-H Foundation is housed in College Station and is available to work with counties regarding major fund raising donations and donors.

4. Are contributions to 4-H organizations deductible by donors?

Yes. The ruling issued by the Department of Agriculture from the Internal Revenue Service, February 9, 1973, states that a donor may be able to deduct contributions to 4-H organizations as provided in section 170 of the tax code. A sample receipt letter for donors is posted on the Texas 4-H Management Site under Resource Development (<http://texas4-h.tamu.edu/adults/mgtguide/index.html>). Donors would need to consult with a professional tax preparer to make certain their donation can be deductible.

To make certain that a local 4-H club or group is granted federal tax exempt status, they must be chartered to operate through the State 4-H Office and file an annual tax form for tax exempt organizations; Form 990 or 990-N (electronic postcard). The Texas 4-H office provides National 4-H Headquarters with a summary of all chartered clubs that have filed their federal income tax form. Each club is then issued a letter affirming they are an organization with federal tax exempt

status. Any donation to the group would then be potentially tax deductible by the donor. It is to the club's EXTREME advantage to file their annual tax form and be federally tax exempt.

5. If we're exempt from federal income tax, why is there a requirement to file an income tax form.

The Pension Protection Act (PPA) of 2006 requires any federal tax exempt organization to file a federal income tax Form 990 or 990-N (electronic postcard) annually. Any group that does not file during a 3-year period will lose their tax exempt status.

Groups raising less than \$25,000 will file an electronic Form 990-N, also known as the e-Postcard.

If a group generates over \$25,000, they will file a Form 990. Many county groups will exceed this amount as they take in stockshow entries, camp fees, etc. Although the group didn't "make (earn)" \$25,000, the bank account had that much revenue run through it.

The Internal Revenue Service has assigned a federal income tax group exemption number to 4-H organizations and affiliated groups to use when filing. This number is 2704.

6. Even with all of the tax-exempt information noted, I've heard that it is possible to get state sales tax exemption for 4-H groups. So which is it? Are we, or aren't we sales tax exempt?

Any information surrounding state sales tax exemption has to do with the opportunity for non-profit groups to file for up to two opportunities per year to be sales tax exempt. They can also file to not pay state sales tax resulting from fund raising sales. Although all 4-H organizations may qualify to be sales tax exempt, no organization is considered sales tax exempt unless that individual group has applied for such an exemption with the Texas Comptroller of Public Accounts. There are no "blanket" sales tax exemptions for any 4-H organizations in Texas. It is also important to note that any 4-H organization selling goods or services, may also be required to collect sales tax on those items and remit to the Comptroller. The Comptroller's Office has the following resources and information:

Texas Tax Exempt Organizations: Identifies groups that may qualify for sales tax exemption.
(<http://www.window.state.tx.us/taxinfo/exempt/index.html>)

Guidelines to Texas Tax Exemptions, September 2003 for Educational Organizations. Help determine qualifications of tax exempt educational organizations.

http://www.window.state.tx.us/taxinfo/taxpubs/tx96_1045.html)

Application for Exemption - Educational Organizations Form AP-207 that 4-H organizations can use to apply for exemption from the Comptroller.

(<http://www.window.state.tx.us/taxinfo/taxforms/ap-207.pdf>)

7. Some major retail stores have a program where they'll match any money raised by non-profit fund raising groups. When we went to them to request this, we were denied because they said 4-H was not on their list. What's the deal with that?

Many major retail groups and funding groups will compare applicants with a summary of all the

non-profit fund raising groups in the U.S. listed as Foundations. They're right. 4-H isn't on it. We are not a "not for profit, fund raising group". We're recipients of the money. We do however, have the Texas 4-H Foundation which can work with clubs and counties concerning securing donor dollars.

8. My club doesn't have a bank account or raise any money. Do they still have to file a federal income tax form?

Yes. Following the passing of the Pension Protection Act of 2006, all federally tax exempt organizations must file an annual tax form. If a group does not file for three years, they are dropped as a tax exempt group. Texas 4-H requires all clubs and groups to file a tax form and has this as a condition of chartering, or receiving permission to operate in the name of 4-H.

9. Why is each club or group required to have their own Employer Identification Number (EIN)?

Each 4-H club is a standalone group. As they are now required to file a federal income tax form annually, they must have a unique EIN tied to their specific club. Additionally, Texas AgriLife Extension Service's cash management recommendations includes expectation that any group operating in the name of the Agency have their own EIN as it relates to bank accounts.

10. What if the clubs get an EIN and all of the contact information changes? This could be a never-ending process with the turnover in club managers and volunteers.

Each December, the Texas 4-H and Youth Development Program must provide an updated summary of all Texas 4-H clubs and groups to National 4-H Headquarters. This summary includes a certification letter from the Agency Director. County Extension Agents will annually have the opportunity to update their clubs and the contact information. This will be a web-based system that will be set up which will also be the mechanism to request a charter for clubs. This new system will be ready in late Spring 2008.

11. What is the 4-H tax year?

Our Texas 4-H tax year runs from January 1 to December 31 with tax forms being due May 15th.