

# ***501(c)(3) Exploratory Committee***



## **Presentation to the Guild**

**9/11/2021**



# Our Mission



The purpose of the guild is to provide a supportive environment for persons interested in weaving, spinning, knitting and other fiber arts and **to teach and promote the knowledge and use of fiber arts in the community.**

# Current Situation



1. Under state law, an organization is not required to incorporate unless it has **\$250,000 or more in total assets**. *But...*
2. We need **insurance** to cover FSWG's physical assets, and liability for specific events.
3. FSWG's **finances** are tight. Donations would help.
4. We can legally accept donations, but **donors can't deduct from taxes**.
5. Since we are not incorporated, our **officers (and members) could be personally liable** for accidental injury or other legal proceedings. Some people may be unwilling to serve as officers because of this risk.

# DEFINING TERMS:

## State Nonprofit vs. 501(c)(3) Organization

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### **NONPROFIT (state incorporation):**

1. Recognition as nonprofit corporation within Virginia
2. Protects officers from liability. (Very important!)
3. Donations not tax-deductible

### **501(c)(3) (Federal tax-exempt charitable organization):**

1. Purpose must be religious, educational, charitable, scientific, literary, etc.
2. Exempt from federal taxes
3. Donations are tax-deductible

# Incorporation as Nonprofit (Virginia)



## BENEFITS:

- 1. Limited Liability.** Officers' and members' personal assets are no longer at risk.
- 2. Credibility.** FSWG would appear more legitimate and solid as an organization when dealing with other organizations, businesses, and even prospective members.
- 3. First step in applying for 501(c)(3).** If we decide to pursue federal tax-exempt status, becoming a nonprofit under state law is the first step.

# Incorporation as Nonprofit (Virginia)



## DRAWBACKS:

1. **Fees.** There is a \$100 fee for filing an application to incorporate as a not-for-profit in Virginia, and a \$10 name search fee.
2. **Paperwork.** The application paperwork will take time and effort to prepare.
3. **Donations are not tax-deductible** unless we also apply for 501(c)(3) status.
4. **Yearly fees & paperwork.** There is a \$25 fee per year to maintain the nonprofit status. *(We pay **state sales taxes** on items we sell, so submitting an annual report to the Va. Dept. of Taxation is already part of the Treasurer's job.)*

# Becoming a 501(c)(3) organization



## BENEFITS:

- 1. Tax-deductible Donations.** This makes it easier to solicit donations, which we could use for outreach, workshops and classes, supplies, and even operating expenses, depending on the gift.
- 2. Tax exemption.** 501(c)(3) charitable organizations are exempt from paying federal taxes. (In some cases, they are also exempt from paying state sales taxes on items purchased by the organization.)
- 3. Ability to apply for grants** and other public or private allocations available only to IRS-recognized, 501(c)(3) organizations.
- 4. Reduced postal rates.** 501(c)(3) charitable organizations get discounts on bulk mail rates. *(Not applicable to FSWG at this point.)*

# Becoming a 501(c)(3) organization

## DRAWBACKS:

1. **Application costs.** The **fee** to submit IRS Form 1023 is \$275. The application will take time and effort to prepare. It may be advisable to consult with an **attorney**, but it's not required.
2. **Limited purpose.** 501(c)(3) organizations are limited to certain functions. But since one of those purposes is **education**, we should be fine.
3. **Yearly paperwork.** 501(c)(3) organizations must keep detailed financial records and file annual reports with Virginia Dept. of Taxation and the IRS. *(The Treasurer already keeps detailed records and files state sales tax.)*
4. **Public scrutiny.** The finances of 501(c)(3) organizations are "open to public inspection," so we would have to disclose them if asked.
5. **Directors cannot be paid.** *(Not a problem for us!)*
6. **Assets.** Assets can't be used for the benefit of officers or directors. *(Again, not a problem.)* And if FSWG ever disbands, we would have to give the group's monetary and physical assets to another non-profit in the same field.

# Upcoming Vote



1. **Do nothing and remain as we are.** Finances will still be too tight. We won't have insurance on our assets, or for some of our activities. Officers (and members) could be personally liable if anything happens (accidents, etc.)
2. **Apply to be a nonprofit corporation.** That gives us legitimacy and liability protection. Donations would still not be tax-deductible, making it harder to get donations. **We would then have 2 years (24 months) to apply for 501(c)(3) status.**

**The upcoming vote** is only on whether to apply for incorporation as a nonprofit organization.

We will vote on 501(c)(3) status in the future.